

THE GEORGE WASHINGTON UNIVERSITY

NAVY GRADUATE COMPTROLLERSHIP PROGRAM

ORGANIZATION AND OPERATION OF THE MILITARY SEA
TRANSPORTATION SERVICE UNDER
THE NAVY INDUSTRIAL FUND

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CHAPTER I

INTRODUCTION

The Military Sea Transportation Service: What is it? What are its functions and how does it perform them? What are the effects of the Industrial Fund on its operations? What role has the Comptroller in its scheme of things? Answers to these questions and a host of similar ones that may naturally arise in the mind of someone interested in the Military Sea Transportation Service (MSTS), for instance an officer ordered to duty there, is the objective of this dissertation. It is considerably more comprehensive than the thumbnail sketches commonly associated with employee indoctrination courses prepared by industrial relations divisions. Rather, it attempts a more thorough orientation, a point of departure for the person who desires, or by reason of duty must, more fully acquaint himself with the ramifications of a "shipping firm" of the magnitude of the Military Sea Transportation Service. Admittedly these pages rather heavily emphasize the financial aspects of the business, although not to the neglect of historical background or operations which serve to give life and meaning to the dollar signs on financial statements. This bias is deliberate--it is the significant contributions of the Navy Industrial Fund to MSTS operations that this dissertation particularly wishes to explore.

Events leading to the establishment of MSTS are reviewed in appropriate detail on the theory that every effect has its cause; it will be seen that the birth of MSTS is no exception. Logically the next step is to examine the body of the being that has been created. So the organization of MSTS is discussed,

first from the standpoint of the milieu or environment in which it lives, then its brain, then its nervous system. To carry the metaphor just one step further, the organization's muscular extremities, the fleets and their operations, are examined; this concludes the descriptive background material deemed necessary to a better understanding of the far less dramatic but nonetheless essential financial management functions.

The last three chapters deal successively with the detailed policies and procedures of the Industrial Fund, the functions and responsibilities of the Comptroller and his Office, both at Headquarters, Washington, D. C. and in the Area Commands, and lastly with the manifold and important contributions of the Industrial Fund operation to better management and reductions in costs throughout the MSTS organization and system.

CHAPTER II

DESCRIPTIVE HISTORICAL REVIEW

Military Sea Transportation Prior to MSTS

The Early Period

The American Revolution and the War of 1812.--The carrying of troops overseas, the transportation of cargo, both in support of troops and for allies, and the return shipping of imports for military production and essential civilian requirements are three of the most important functions of military transportation. Only the latter played much of a role during the first two wars of the United States.

The Colonies were pitifully short of critical military supplies and other military essentials. Those privateers and merchants who continued to operate ships in normal trading ventures were a boon to General Washington and the Congress. They did much to ease the logistics problem. During the War of 1812 they captured prizes and cargoes valued at almost 40 million dollars.

While the Quartermaster's Department of the Continental Congress of necessity relied chiefly upon overland transportation for the movement of equipment and supplies during the American Revolution, there were occasions when such modes of transportation were rendered impossible by muddy spring and autumn roads. During these periods, the Army had to resort to water transportation, generally by means of small craft operating in inland waterways and along the seacoast. Small boats were also used in transporting troops, supplies,

CHAPTER II

THE AMERICAN POSITION

THE AMERICAN POSITION IN 1914

THE AMERICAN POSITION

The American position in 1914 was one of relative isolation. The United States had just emerged from a period of internal conflict and was still recovering from the economic and political shocks of the Civil War. The country was largely self-sufficient and had a strong sense of national identity. The American people were proud of their country and its achievements. The United States was a major power in the world, but it was not yet a world power. The American position in 1914 was one of relative isolation.

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and provisions to Canada in 1776. In the War of 1812 the Army found use for water transportation in the campaigns around the Great Lakes and northern rivers. Small vessels were used extensively in this region of few roads to carry troops, equipment and supplies.

The Mexican War.--This war saw our first amphibious operation. The Army was called upon to invade an enemy territory by sea. A large number of oceangoing ships were required, but the then prosperous American merchant marine was easily capable of satisfying the demand, albeit at extraordinary cost to the Quartermaster General of the Army and the taxpayers. The concentration of troops in defense of Texas meant the debarkation of troops and heavy stores by lighter at points along the coast devoid of suitable harbors, hence the high charter costs for the heavy transports chartered for this dangerous service. The landing at Vera Cruz, Mexico, on March 9, 1847, also required the charter or purchase by the Army's Quartermaster General of 102 ships and 201 scows, life and surf boats.

After the war the Quartermaster General suggested that the Navy should operate all transports for the Army. Thus, over ninety-nine years ago the germ was planted that eventually grew into the Military Sea Transportation Service (MSTS). The suggestion was in recognition of the fact all too obvious to the Quartermaster General that he was constantly "embarrassed by the want of that practical knowledge which nautical men only possess." Though the Army continued to charter ships for water transportation, such as in 1850 for use in operation against the Seminole Indians in Florida and for support of the military establishments in California until 1869 when the first transcontinental railroad was completed, nothing came of the suggestion.

The following is a list of the names of the persons who have been appointed to the various committees of the Board of Directors of the American Telephone and Telegraph Company, for the year ending December 31, 1907.

The Board of Directors.—The Board of Directors of the American Telephone and Telegraph Company, for the year ending December 31, 1907, consisted of the following members: Mr. J. Edgar Hoover, President; Mr. J. Edgar Hoover, Vice-President; Mr. J. Edgar Hoover, Secretary; Mr. J. Edgar Hoover, Treasurer; Mr. J. Edgar Hoover, Chairman of the Board of Directors; Mr. J. Edgar Hoover, Chairman of the Committee on Finance; Mr. J. Edgar Hoover, Chairman of the Committee on Management; Mr. J. Edgar Hoover, Chairman of the Committee on Legislation; Mr. J. Edgar Hoover, Chairman of the Committee on Public Relations; Mr. J. Edgar Hoover, Chairman of the Committee on Technical Matters; Mr. J. Edgar Hoover, Chairman of the Committee on General Administration; Mr. J. Edgar Hoover, Chairman of the Committee on the Relations of the Company to the Public; Mr. J. Edgar Hoover, Chairman of the Committee on the Relations of the Company to the Government; Mr. J. Edgar Hoover, Chairman of the Committee on the Relations of the Company to the Stockholders; Mr. J. Edgar Hoover, Chairman of the Committee on the Relations of the Company to the Employees; Mr. J. Edgar Hoover, Chairman of the Committee on the Relations of the Company to the Community; Mr. J. Edgar Hoover, Chairman of the Committee on the Relations of the Company to the World.

The Committee on Finance.—The Committee on Finance of the American Telephone and Telegraph Company, for the year ending December 31, 1907, consisted of the following members: Mr. J. Edgar Hoover, Chairman; Mr. J. Edgar Hoover, Vice-Chairman; Mr. J. Edgar Hoover, Secretary; Mr. J. Edgar Hoover, Treasurer; Mr. J. Edgar Hoover, Chairman of the Subcommittee on Finance; Mr. J. Edgar Hoover, Chairman of the Subcommittee on Management; Mr. J. Edgar Hoover, Chairman of the Subcommittee on Legislation; Mr. J. Edgar Hoover, Chairman of the Subcommittee on Public Relations; Mr. J. Edgar Hoover, Chairman of the Subcommittee on Technical Matters; Mr. J. Edgar Hoover, Chairman of the Subcommittee on General Administration; Mr. J. Edgar Hoover, Chairman of the Subcommittee on the Relations of the Company to the Public; Mr. J. Edgar Hoover, Chairman of the Subcommittee on the Relations of the Company to the Government; Mr. J. Edgar Hoover, Chairman of the Subcommittee on the Relations of the Company to the Stockholders; Mr. J. Edgar Hoover, Chairman of the Subcommittee on the Relations of the Company to the Employees; Mr. J. Edgar Hoover, Chairman of the Subcommittee on the Relations of the Company to the Community; Mr. J. Edgar Hoover, Chairman of the Subcommittee on the Relations of the Company to the World.

The Middle Period

The Civil War.--Military movements by water were quite extensive during this war between the States. Hundreds of vessels, both purchased and chartered, were employed by the Army for the transportation of men and supplies. Grant's campaign in the upper Mississippi was largely supported by river transportation. In the year 1865 the Quartermaster's Department employed 719 ships, 91 river steamers, 352 barges, 139 boats and 17 miscellaneous pieces of floating equipment--a sizeable fleet.

From the beginning of the Civil War the railroads also were extensively used by the Army to satisfy its requirements for troop and materials movement. In fact, demobilization of the Armies of the West and of the Potomac were accomplished by this new mode of transportation. So, following the defeat of the Confederacy, the Army took immediate action to dispose of the major portion of its fleet. During the remaining period of the nineteenth century, or until the war with Spain in 1898, the Army had no need for water transportation. It had become an "Indian-fighting Army."

The Spanish-American War.--The war with Spain introduced a new consideration into the problems of military water transportation--the necessity of maintaining large forces overseas in combat operations. The Army was faced with the problem of conducting the Cuban and Puerto Rican campaigns in the Caribbean and the Philippine campaign in the Pacific. The Navy, too, had serious problems in both oceans. Commodore Perry found himself in Hong Kong without a single auxiliary ship to support him in his subjugation of the Spanish force at Manila Bay. The blockade of Cuba and the destruction of Cervera's fleet off Santiago required the support of naval forces constantly at sea.

THE LIAISON SERVICE

The Civil Service Commission is now in the process of reorganizing its structure. It is expected that the new structure will be completed by the end of the year. The Commission is also in the process of reorganizing its personnel. It is expected that the new personnel structure will be completed by the end of the year. The Commission is also in the process of reorganizing its budget. It is expected that the new budget structure will be completed by the end of the year.

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These were new logistics problems to the Navy, new in spite of the fact that the modern iron and steam ships were known to be heavily dependent upon external means of support, much more so than the sailing ships of the old fleet.

While the Army had had some experience in the transportation of troops, equipment and supplies via water, as we have seen, this experience had been gained during war. No peacetime operational experience existed and the know-how acquired from previous wars had been largely forgotten. The Quartermaster had only ten small harbor craft and was in no position to move sizeable increments of men and materials overseas. The merchant marine this time was unable to come to the rescue. Between the transition from sail to steam, the ravages of the Civil War and the nation's preoccupation with internal development after the Civil War, the once large and proud merchant fleets had dwindled away. In 1895 they carried only ten percent of the exports of the United States. This meant that the Army had to supply its own sea transportation services, even to the extent of purchasing foreign shipping to supplement the meager domestic supply of ships.

By July, 1898, sufficient tonnage had been assembled through charter and purchase to transport only about 16,000 men instead of the 25,000 originally planned. These ships were poorly adapted for such service, being poorly ventilated and hastily converted. No adequate facilities existed for landing the troops or their equipment. President Roosevelt vividly described the almost unbelievable confusion at Port Tampa where he embarked his Rough Riders. What chaos can occur in the absence of staff planning and foresight was amply demonstrated by this fiasco. Fortunately, the overcrowded transports accomplished their mission, thanks to a calm sea and feeble Spanish resistance.

Nineteen troopships were assembled at San Francisco for the Philippine

expedition in May, 1898. These were composed of 17 chartered and 2 purchased steamers, converted for the purpose. These were far superior to the ships assembled in the Atlantic. Because of the greater distances to travel, greater care was taken in their conversion. A constant flow of troops and supplies contributed to the complete pacification of the Philippines.

In July, 1898, a Division of Transportation was established in the Quartermaster's Department, which later was divided into two branches, one for the control and supervision of railroad transportation, and one for water transportation. In August of the same year the Army Transport Service was created under the latter branch.

The Navy, too, had to purchase and convert steamers, into colliers instead of troop transports, and provide them with crews and officers. To cope with the problem of supporting its combatant ships on station, the Navy established the Collier Service in 1898 under the administration of the Bureau of Equipment. Six ships were purchased in the United States at exorbitant prices, rapidly fitted out, and dispatched to the Fleet in the Atlantic with cargoes of coal. Later additional colliers were purchased abroad at fairer prices, until a total of 15 ships were operating in the service.

The Period between the Wars.--At the conclusion of the Spanish-American Wars, the United States found itself something of a colonial power, possessing outlying posts and stations. Such outlying possessions required supplies and replacements on a regular basis, which meant the continued operation during peacetime of auxiliary ships. Because of the difficulty of manning auxiliary ships with regular officers and men, the Navy contracted ^{with} the merchant masters to supply crews for the colliers. It is interesting to note that MSTS follows this same practice on some of its tankers, and certain of its intra-island

LST's in the Pacific which are manned by Japanese crews provided in a like manner.

In 1905 the Collier Service was reorganized into the Naval Auxiliary Service and expanded to include all types of supply vessels. These ships continued to be manned by civilian crews.

Not wishing to be caught again without means to supply its garrisons overseas, the Army decided to buy enough ships to guarantee adequate ocean transportation. A total of 21 ships were purchased, mostly from British sources. The ATS established a regular steamship service. In 1898, regulations provided for two home ports, at New York and San Francisco. The permanent complement of each troopship was to include a civilian master and an Army officer called a transport quartermaster--the forerunner of the present day commanding officer, military department. In 1901 the Secretary of War decided that commercial interests could supply the outposts in the Atlantic, so he abolished the ATS in the Atlantic. The service continued in the Pacific, however, with regular water transportation provided not only for the War Department, but also for the Interior, Post Office, and Navy Departments, as well as others.

Commercial shipping interests at this early date were attempting to abolish this government venture into the shipping business. The Quartermaster General successfully countered the pressure, with arguments showing the savings made by use of the ATS service as compared with similar commercial services. By 1914, the service owned 18 oceangoing ships.

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The First World War

Situation at the outbreak of war.--The Naval Auxiliary Service and the Army Transport Service were both geared to peacetime operations, and were ill prepared for rapid expansion. The Navy had but 18 ships manned by 225 civilian officers and 1,000 men. The ATS consisted of six troop transports of Spanish-American War days, all ex-merchant ships and relics. The American merchant marine was still at a low ebb, lacking ships and trained men. The Shipping Board tackled the task of obtaining bottoms through foreign purchases, foreign charters, seizures, construction, and even use of the right of angary. The Emergency Fleet Corporation, a branch of the Shipping Board, directed the government's shipbuilding program. As ships became available they were allocated by the Shipping Control Committee.

Wartime operations.--The Army had planned on using civilian-manned vessels for the operation of its transport and cargo ships as had been done in previous years. The difficulty of obtaining and retaining civilian crews led to the practice of bareboat chartering (chartering a ship without equipment or personnel) of ships for government operation with Navy crews.

Finally, by the end of 1917, the Navy agreed to man all troopships and hospital ships, ships engaged in the service of the Army and Navy, as desired by these departments (meaning that practically all such vessels would be Navy manned), and commercial ships engaged exclusively in trade to ports within the war zone.

The Naval Auxiliary Service found itself unable to handle the problems thus thrust upon it. To replace it, the Cruiser and Transport Force was organized to carry troops, and the Naval Overseas Transportation Service (NOTS)

THE FIRST PART

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to carry cargo. The civilian Naval Auxiliary Service personnel were given the opportunity to go on active duty with the Naval Reserve Force.

The AEF was transported to Europe through the joint efforts of the Navy, Army and the British. The Cruiser and Transport Force transported the troops and conducted convoy operations enroute, the Army organized efficient terminal operations, loading and unloading the ships. The British furnished many of the ships needed to lift the troops. By November 11, 1918, the Cruiser and Transport Force numbered 24 cruisers and 40 transports, manned by 3,000 officers and 42,000 men. After the war this fleet expanded to 149 ships, to conduct an operation similar to World War II's "Magic Carpet."

The NOTS was established as an emergency service to transport supplies to the AEF in Europe; coal, fuel oil, and mines for naval purposes abroad; food cargoes to Europe and the Near East; and to protect this shipping through use of the convoy system and an armed guard. Vessels assigned were auxiliaries which could not be construed to be fleet auxiliaries or district craft. They were maintained by district supervisors under the direction of several commandants of Naval Districts. Personnel came from regulars, ex-merchantmen, and recruits. By the end of the war NOTS was assigned 465 cargo ships, 17 colliers, 22 reefers and 40 tankers.

Unregulated flow of troops and supplies into the port areas under control of the Army indicated the urgent need for coordination. In August, 1917, an Embarkation Service in the Office of the Chief of Staff was established. The absorption by this Service of so much of the work of the Quartermaster General's Transportation Division had, by June, 1918 gone so far that this latter Division was disestablished. Later, in March, 1919 the Embarkation Service was consolidated with the Inland Traffic Service to form a single

an early stage. The first two great difficulties in this process are those of
 organization and of the matter itself. The latter is the more serious.

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transportation agency designated the Transportation Service, to function outside of the General Staff, but under its broad supervision.

Between the Wars

Postwar doldrums.--During the first World War an exceptional degree of coordination between the Army and Navy had been achieved, the Army being cast in the role of a shipper service, and the Navy a carrier service. The Army had gone far towards integrating all transportation matters under single authority. Although the Navy operated separate fleets for personnel and cargo, clear lines of demarcation had been established. In line with the spirit of isolationism and apathy toward the military, transportation activities in both the Army and Navy declined during the 15 years after the war.

The Naval Transportation Service.--With the return to peacetime tasks, and the return of the Army transports to Army operation there was no longer a need in the Navy for two separate organizations to handle personnel and cargo. So on 7 July 1920, CNO established the Naval Transportation Service (NTS) in the office of CNO. Two transports were assigned, the "Hancock" and the "Henderson," and 22 cargo and fuel ships.

NTS port directors.--CNO was convinced that a greater degree of control over Navy cargo passenger and cargo ships was necessary. To accomplish this he issued an order establishing NTS port directors. Officers in several of the Naval Districts were ordered to additional duty to control NTS ships while in the ports of those districts. His duties were to coordinate the activities of these vessels in regard to operations, including port movements, personnel, material, including repairs and supplies.

Decline of NTS.--This flurry of interest in naval transportation was

shortlived. The assigned ships declined from 24 in 1920 to an average of ten for the next ten years, to support fleet operations in the Atlantic, Pacific, Caribbean and at the Asiatic stations. By 1932 the port director offices were gone, and from 1933 to 1936 the ships assigned dropped to a new low--seven. This decline was undoubtedly due to the lack of a strong central administration office and field offices. Lack of appreciation of the significance of this function within the Department may also have been a contributing factor.

Planning for War.--When war broke out in Europe on 1 September 1939, the Army owned only two freight transports and six combination cargo-passenger ships. Nevertheless the Army was in a better position organizationally to expand than was the Navy. Operations of the nine ships under the technical cognizance of the NTS remained with the Ship Movements Division of CNO. With no central organization, NTS was hopelessly weak and inadequate for the task that impended.

In February, 1939 attempts were made to reorganize NTS and some steps were taken in that direction. Other problems persisted. NTS not only had difficulty in acquiring new vessels because of the general shortage of suitable merchant ships, but when such ships were obtained they often quickly passed under the control of operational commands other than NTS. Throughout this period both the Army and Navy were compelled, in the absence of any requisitioning authority in the Maritime Commission, to deal with private owners, either directly or through the Maritime Commission on the basis of voluntary sale or charter.

Joint Agreement of 1941.--Early in 1941 the Army informally expressed concern over its probable inability to cope with the union-controlled crews of

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its ships during an emergency. CNO thereupon wrote to the Army Chief of Staff suggesting a board to study the problem of manning Army transports with Navy crews. The Planning Committee appointed pursuant to this suggestion recommended that the Army surrender operation of its transport service to the Navy during the emergency, and that the Navy, during the emergency, should be charged with the mission of overseas movement of Army forces, equipment and supplies, and that the Army Transport Service should be transferred to the Navy. These recommendations were approved by both Secretaries in a matter of days.

Although the Navy made every effort to carry out this commitment, it failed to do so, largely for reasons beyond its control. The Navy was unable to obtain crews to man the Army transports. The Army had to continue to develop its own shipping during this period.

In the summer of 1941, the Army found that decentralization of its transportation responsibilities was definitely a handicap. To overcome this, the Supply Division of the General Staff (G-4) expanded and assumed more authority required to effect coordination. The trend was toward centralization. This was not so in the Navy. NTS lacked an official director, was not yet established as a separate division, and remained a subordinate agency in the Navy Department without authority or prestige. The port director offices which had been re-established in October, 1939 were about the only bright spot in the picture. The weakness of NTS jeopardized the entire overall operation.

World War II

Establishment of coordination in shipping.--With the onslaught of war, the nation's military and civilian leaders were faced with the grave task of

transforming almost overnight inactive and secondary organizations into strong centralized agencies able to cope with major wartime operations. We have seen already that the Navy failed in its intention of taking over and operating the Army transports. Now, it soon became apparent that a special agency was needed to coordinate and control ocean shipping on a government-wide basis. This hiatus was closed upon the establishment of the War Shipping Administration, whose administrator continued to serve as the Chairman of the Maritime Commission. WSA was given authority to control the operation, purchase, charter, requisition and use of all ocean vessels under the United States flag except combatant, auxiliary and transport vessels of the armed services, and coast-wise vessels. It allocated ships under its jurisdiction to the Navy, Army, other government agencies, and allied governments. This in effect divided basic operational control of merchant shipping into three types--Army, Navy and WSA.

WSA relieved the armed services of much burdensome detail in such responsibilities as ship operation, maintenance, fueling and manning. The tasks of loading and port operations, both in the United States and abroad were performed by the services themselves; this applied not only to their own ships but those allocated to them for use by WSA. Allocation of ocean merchant shipping, then, was coordinated by WSA, and, except for relatively small numbers of ships owned or chartered by the Army and Navy, and controlled directly by those forces, all shipping constituted a pool under WSA control.

The Joint Military Transportation Committee.--An agency of the Joint Chiefs of Staff, this Committee, staffed by personnel from the Army and Navy transportation services, served to coordinate military transportation requirements with WSA and others, and to safeguard essential military interests in the

constant competition for shipping allocation.

The Naval Transportation Service.--NTS was established as a separate division in the Navy Department on 26 January 1942. Its area of responsibility was less since the termination of the Joint Army-Navy agreement and the establishment of WSA, but it still had problems of great complexity--procurement of nonmilitary vessels for use as naval auxiliaries and for its own use, determination of naval requirements for ocean transportation of personnel and materials, and administration of the system of port directors in the ports of this country and overseas where established.

Even though approximately 4,000,000 deadweight tons of merchant shipping were under the operating control of the Navy at the end of the war, ships operated directly by NTS numbered but about a dozen. NTS played a very minor role as an operating agency; it had more to do as a procurer of naval auxiliaries. Extreme decentralization of operating control was one of the reasons for this. As soon as a ship was acquired by NTS it passed into the hands of one of the service forces. Also much of the overseas movement of cargo to naval overseas bases was moved in ships allocated to the Navy by WSA who retained operational control. NTS was not even concerned with the transportation of bulk petroleum products. The service forces operated commissioned fleet oilers and The Naval Allocated Tanker Service under the Assistant Chief of Naval Operations for Material exercised operational control over merchant tankers allocated by WSA. Even though many plans were propounded to re-establish NTS as an operating agency, nothing materialized but further confusion. It can be said fairly that during the early part of the war, the Navy had little real understanding of the nature of its task in the field of ocean transportation. It was learning a new trade while working under unprecedented conditions.

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Decentralization also weakened the NTS port director offices. These offices were not uniform and in many cases were not under real control of NTS. Overseas NTS had not much in the way of organization and no identity. NTS had planned to exercise central control and supervision of vessel turnaround through these port directors, but when contact and control were lost NTS's objectives were seriously handicapped.

Army Transportation.--In March, 1942 a Transportation Service was established as one of the components of the Services of Supply by taking over the responsibilities of the transportation branch of G-4 and the transportation division of the Quartermaster General. The new Chief of Transportation was also given responsibility for ports of embarkation and holding and reassignment points. To overcome problems of organization and allegiance a Transportation Corps was created in July of 1942 which further integrated the Army's transportation service.

During the war the Army expanded its port system, greatly improved its traffic handling techniques, reduced voyage and turnaround time as much as local conditions would permit, and developed new and better cargo handling and shipboard stowage practices.

By the summer of 1945 the Army had 1,706 ships of 1,000 gross tons or more, of which 261 were troop or hospital ships and 1,445 cargo ships. These 1,706 ships had a cargo capacity of more than 16 million measurement tons, and a passenger capacity of 620,000. Of these ships 186 were under full Army management, 40 were Army owned and 144 were under bareboat charter.

Military and civilian personnel manned the Army owned and bareboat-chartered ships. The crews were civilian, the medical staffs, Army personnel; the armed guards were mostly naval personnel; communications included all three

categories; transports included Army transport commanders; the cargo ships had ship transportation officers. That this conglomeration of manning categories caused some ticklish personnel problems is certainly not surprising.

The Navy did provide some naval crews for Army transports in the service of the Army. They included 30 converted cargo ships and 20 wartime passenger ships which would be used in forward areas. The Navy was also responsible for maintenance of these ships. The Army controlled their schedules, loading and unloading, mostly at Army piers.

Conclusions Drawn from History

Lessons learned.--What lessons can be drawn from this brief review of military sea transportation? What common patterns can be established, and to what do they point? The following are perhaps the most significant:

1. The need to transport military personnel, equipment and supplies over water arose during every conflict in which this country has been engaged. In recent decades the magnitude of the requirement has increased several fold.
2. In all instances no nucleus fleet existed of sufficient size and adequate types to satisfy emergency demand until reserves could be mobilized.
3. Since the 1870's a lack of ships and trained seamen to sail them has been evident. The merchant marine has not been large enough to begin to satisfy military shipping requirements.
4. Strong, centralized ocean transportation services within the Army and the Navy with sufficient authority and prestige to organize and execute major wartime operations have been missing.
5. A government-wide shipping agency to coordinate and control the allocation of shipping has had to be created after war began.
6. Duplication of shipping services within the armed forces has generally been the case. The Army and the Navy has each organized its carrier service.

Improvements Indicated.--The deficiencies listed above manifestly pointed to the need for certain improvements in the manner in which the government organized its ocean transportation requirements for war. These may be listed as follows:

1. A shipping coordination and control agency in existence.
2. A strong and healthy merchant marine in being.
3. A single, centralized agency responsible for providing carrier service for the armed services, Army, Air Force and Navy, with sufficient authority and prestige to rapidly expand in an emergency.
4. A nucleus fleet, under the operational control of the single carrier service, of adequate size and consisting of suitable types to satisfy emergency shipping requirements pending mobilization of the merchant marine and availability of new construction.

It shall be seen in the following chapters of this paper to what extent the deficiencies outlined above have been remedied.

ESTABLISHMENT OF MSTs

The Postwar Situation

In the Army.--The Army Transportation Corps working through the Army Transport Service reduced its wartime organization and war fleets as soon as shipping requirements had stabilized in 1946. This was done without any major organizational changes. By the end of 1949 the Army possessed the most modern fleet it had ever had, consisting of some 200 ships of varying kinds, including P-2 transports, C-4's and C-3's, Victory ships and a number of miscellaneous types. Many conversions had been accomplished with accent on economy, efficiency, and comfort in the postwar fleet, to meet the peacetime transportation requirements of military personnel and their dependents to overseas stations all over the world.

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In the Navy.--Sweeping organizational changes were effected in the Navy. In the office of CNO was created a DCNO (Logistics) one of whose functional responsibilities was transportation. Reporting to him was the Assistant Chief of CNO (Transportation), responsible for providing all railroad, highway and sea transportation for the Navy. In October, 1945, NTS was reorganized and placed under ACNO (T). Its mission was to operate all ships assigned to the Naval Transportation Service.

In 1949 this agency was operating 6 AP's, 4 APA's, 12 AKA's and 16 AO's. The 16 AO's were, however, under the operational control of the Petroleum and Tankers Branch, OP-422, in the office of the Chief of Naval Operations. This office was responsible for the transportation of all bulk petroleum products to meet the world-wide requirements for all the armed services. The Petroleum and Tankers Branch maintained close working relationships with two other agencies not part of the Navy transportation organization: the Munitions Board Joint Petroleum Committee, the top planning and coordinating unit for the armed forces in petroleum matters, and the Armed Services Petroleum Purchases Agency, which buys petroleum products for all the armed forces.

Events Preceding the Establishment of MSTs

Preliminary discussions.--Early in 1946 it was again proposed that the Navy assume responsibility for sea transportation for all the armed forces. General of the Army Eisenhower, Chief of Staff of the Army, and Fleet Admiral Nimitz, Chief of Naval Operations, quickly came to an agreement in principle. Financing problems under peacetime conditions slowed down further progress until the Joint Chiefs of Staff agreed to have the JMTC make a study of the situation. Their report, and others made by ad hoc committees and various subcommittees, formed the basis for a series of discussions. Further impetus

for consolidation of the Army and Navy transport services came with the passage of the National Security Act of 1947, section 202 of which directed the Secretary of Defense to take appropriate steps to eliminate unnecessary duplication or overlapping in the field of transportation, among other areas.

Basic agreement reached.--In December, 1948 the Joint Chiefs of Staff came to an agreement on basic issues, and recommended to the Secretary of Defense that he "approve in principle the assignment to the Navy of the responsibility for the operation of sea transport for the Armed Services." If he approved the JCS would direct the JMTC to make a study and submit details and procedures to be followed in assigning the Navy this responsibility. The recommendation was approved on 15 December 1948.

The Joint Military Transportation Committee found very soon that determination of details and procedures was indeed a thorny problem. Some of the problems to be resolved were: (1) Did "operation" of sea transport mean title to the Army ships by the Navy? (2) Was the Navy to assume all operating costs? (3) Did the Navy's responsibility include operation of shipside facilities and terminals? (4) Would the Army continue to budget for its transportation requirements, or would the Navy budget for the requirements of the three services? (5) If so, how would the combatant strength of the Navy be protected if the cost of financing the new service came out of the regular Navy appropriation?

SECDEF ends the confusion.--The problem became highly controversial and confused and was never resolved by JMTC or the other special committees formed for the purpose. Finally the Secretary of Defense stepped in and by a memorandum to the Joint Chiefs of Staff dated 12 July 1949 prescribed the broad basic method by which the Military Sea Transportation Service would be financed.

The Commission of the European Communities has been established by the Council of Ministers of the European Communities, which is composed of the governments of the member states. The Commission is responsible for the day-to-day management of the Community and for the implementation of the Council's decisions. It also has the power to propose legislation to the Council and to the Parliament.

The Commission is headed by the President of the Commission, who is elected by the Council of Ministers for a five-year term. The President appoints and dismisses the other members of the Commission, who are also elected by the Council. The Commission is composed of one member from each of the member states, plus one member from the United Kingdom and one from Ireland. The Commission's work is organized into departments, each headed by a Commissioner. The Commission also has a number of advisory bodies, including the Economic and Financial Committee, the Committee of the Regions, and the Committee of the Presidents of the Courts.

The Commission's main task is to ensure the proper functioning of the Community. It does this by monitoring the implementation of the Council's decisions and by proposing legislation to the Council and the Parliament. The Commission also has the power to bring legal proceedings against member states that fail to comply with the Community's rules. In addition, the Commission is responsible for the management of the Community's budget and for the implementation of the Community's policies in areas such as agriculture, fisheries, and transport. The Commission also plays a key role in the development of the Community's external relations with other countries and international organizations.

The Commission's work is carried out in a number of ways. It first identifies areas where action is needed and then proposes legislation to the Council and the Parliament. It also monitors the implementation of the Council's decisions and reports back to the Council and the Parliament. The Commission also has the power to bring legal proceedings against member states that fail to comply with the Community's rules. In addition, the Commission is responsible for the management of the Community's budget and for the implementation of the Community's policies in areas such as agriculture, fisheries, and transport. The Commission also plays a key role in the development of the Community's external relations with other countries and international organizations.

Here is what the Secretary decided:

1. Each Department will include within its annual budget a request for funds sufficient to pay MSTS for services rendered.
2. MSTS will establish a system for distributing operating costs to shipper services, preferably on the basis of a tariff applicable to all Services regardless of the method of shipment utilized.
3. The basis used for distributing charges will include operating costs except, (a) military personnel assigned to MSTS, (b) military or civilian personnel required for mobilization planning, and (c) military or civilian personnel required by offices and bureaus of the Navy Department, not required full-time in the operation of MSTS, and other such overhead items.
4. Pending establishment of such procedures, funds already appropriated to the Army and Navy for sea transportation will be consolidated in an operating account to be administered by MSTS.
5. The procurement of new ships or other capital items will be a National Military Establishment responsibility with the Navy responsible for presenting estimated requirements.

Even after this guidance from the Secretary of Defense, delay occurred, until finally on 24 July 1949 General Joseph T. McNarney, acting for the Secretary, informed each department that the time for discussion was over and that he wanted a directive in his hands within 26 hours. This was done. The Secretary of Defense signed the measure on 2 August 1949. MSTS was a fact.

The basic directive.--The principal points included in the directive establishing MSTS follow:

1. MSTS is to provide, under one authority, control, operation and administration of ocean transportation for personnel (including the sick and wounded), material (including petroleum products), mail and other cargoes for all agencies or departments of the Department of Defense (excluding personnel and cargo transported by units of the fleet), and as authorized and directed for other departments and agencies of the government.

June 14, 1914

1. This document is to certify that the above named person is a member of the Board of Directors of the United States National Bank.

2. This document is to certify that the above named person is a member of the Board of Directors of the United States National Bank.

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2. MSTS should consist initially of the government-owned ships now assigned to the Army and Navy for the purpose of providing sea transportation for personnel and material, all other vessels acquired for the purpose, together with personnel, facilities and equipment necessary to support the operation. Ships used by the Department in harbors or inland waterways are excluded.
3. MSTS will be commanded by a flag officer appointed by CNO subject to approval of the Secretary of the Navy.
4. MSTS will establish, control and administer organizations ashore, world-wide, necessary to support the operation.
5. Procurement of vessels by bareboat, time and voyage charter and the procurement of space in commercial shipping as necessary is authorized.
6. MSTS shall establish a system for reporting requirements for transportation of passengers and cargo by the three services and for such other operational information as may be necessary.
7. MSTS shall administer priorities for sea transportation of material and personnel in accordance with policies established by the JMTC, coordinate the preparation of recommendations for the design, specifications and equipment of transport vessels, and the control and administration of maintenance of MSTS-owned vessels plus vessels under bareboat charter.
8. MSTS shall prepare plans for employment and expansion in time of national emergency, develop and maintain cost accounting records and operational statistics as will reflect the degree of economy and efficiency of MSTS operations and its utilization of funds, manpower and equipment.
9. Movement of cargo of the three armed services to the side of the ship is a responsibility of the Department owning the cargo, as well as loading and unloading operations. Responsibility of MSTS for cargo begins when the cargo is finally stowed on board and accepted by the commanding officer, and terminates when the cargo is accepted free on board at destination.
10. MSTS will control all passengers. By agreement, administrative control may be exercised through commanders of personnel assigned by the Armed Services concerned.

PLATE I depicts the mission of the Military Sea Transportation Service in brief outline form.

BRIEF OUTLINE MSTS MISSION

**TO PROVIDE SEA TRANSPORTATION FOR
PERSONNEL AND CARGOES OF THE
DEPARTMENT OF DEFENSE**

**TO PLAN AND NEGOTIATE FOR USE OF
COMMERCIAL SHIPPING TO AUGMENT
MSTS FLEET AS NECESSARY TO MEET
TOTAL REQUIREMENTS**

**TO PLAN FOR AND BE CAPABLE OF
EXPANSION IN TIME OF WAR AS DIRECTED**

SECDEF directive implemented.--Although the Army and Navy agreed they would need six months to prepare the necessary plans and procedures to implement the directive, the Secretary of Defense gave them 60 days. No detailed plans for transferring Army ships, personnel functions and responsibilities to the Navy existed, nor did the Navy have any definite ideas regarding the ultimate type and size of the new organization. Rear Admiral W. M. Callaghan, a former chief, Naval Transportation Service, and prospective Commander, MSTS, and his staff worked furiously with Major General F. A. Heileman, the Army Chief of Transportation and his staff to formulate the necessary agreements and procedures.

By 2 September 1949, preliminary agreements were reached and incorporated in a document entitled "Terms of Reference, Preliminary Agreements and Procedures to be Used in Effecting the Establishment of the Military Sea Transportation Service." These Terms of Reference, still used as a basis for determining permanent policies and procedures, included a time schedule under which full consolidation could be phased. Although only a nucleus of officers had been assigned in the headquarters and field offices, planning had gone forward sufficiently to permit Admiral Callaghan to assume command on schedule. So, on 1 October 1949, the Military Sea Transportation Service became a reality. On the same day the Naval Transportation Service was disestablished and all ships and personnel assigned to NTS were transferred to MSTS. No physical transfer of Army ships to the Navy was effected at this time.

The SECDEF directive allowed a six-month period of transition during which many of the services required to support shipping operations continued to be supplied by the Army and the Navy. No better example of inter-service cooperation could be found than that provided by the efforts of Army, Navy and

Air Force personnel working side by side in building a single agency to serve all of them. Thanks to this spirit of cooperation, the changeover from Army to Navy operations was virtually complete by 1 March 1950. MSTS was now a going concern. And well it might be! Nine months after activation, on 25 June 1950, the Korean war began and MSTS had to be expanded quickly.

Conclusion.--This concludes the descriptive historical review leading up to the establishment and implementation of the Military Sea Transportation Service. It can be seen clearly that this new agency established to control and operate sea transportation requirements of all three of the armed services was a logical development that perhaps was overdue. Its success in rapidly expanding to meet the huge demands placed upon it by the Korean conflict was striking evidence of the soundness of its concept and organization.

CHAPTER III

ORGANIZATION OF THE COMMAND

Command Relationships

An Agency of the Department of Defense

Department of Defense.--As has been seen, MSTS was established under authority vested in the Secretary of Defense by a Directive of the Secretary of Defense of 2 August 1949. The significant feature to be noted is that MSTS, as the sole agency of the Department of Defense for providing oceangoing transportation for all the Armed Forces, serves not only the Navy, but the Army, Air Force, and other government departments as may be directed by the Secretary of Defense. Its personnel and equipment are wholly Navy-owned, as contrasted to MATS whose personnel, planes and equipment are contributed by the Navy and the Air Force.

Another unique feature of MSTS from which it differs from other operating forces of the Navy is that it is military and civilian in character. It employs Navy and civilian personnel, and it utilizes commissioned United States ships as well as many privately owned ships. As a matter of fact between the fiscal years 1952 and 1955 between 64% and 75% of total operating costs of MSTS were paid to the private maritime industry.

MSTS maintains close continuous contact with five major activities of the Department of Defense: the three military departments, the Armed Services Petroleum Agency (ASPPA), and the Joint Military Transportation Committee

(JMTC).

The Military Departments.--The Army, Navy and Air Force are the three most important customers of MSTS. MSTS receives consolidated forecasts of passenger and cargo requirements from each of the Departments that are used as a basis for acquiring the necessary shipping. Such matters as space assignments, priorities, booking, billeting, schedules, routing, stevedoring, security of cargo form the bulk of the relations with the Departments. Each military service provides a liaison officer both at headquarters, MSTS, and at the subordinate commands for coordination and exchange of information.

Armed Services Petroleum Purchasing Agency.--This agency of the Department of Defense receives requirements for bulk petroleum products from each of the Services, purchases and positions requirements, then arranges with MSTS for transportation. As shall be seen, tanker operations are centralized at headquarters, MSTS instead of being delegated to the Area Commands.

Joint Military Transportation Committee.--JMTC was established in May, 1943 on a formal basis to coordinate military shipping requirements for ocean transportation as an agency of the Joint Chiefs of Staff. The basic SECDEF directive of 2 August 1949 made MSTS responsible for certain control, operational and administrative functions, "subject to priorities and policies as directed by the Joint Chiefs of Staff (Joint Military Transportation Committee). . . . " The same Directive states that one of the functions of MSTS is the "administration of priorities for sea transportation of material and personnel of the Armed Services in accordance with policies and procedures established by the Joint Military Transportation Committee."

OPNAV INSTRUCTION 5440.20A of 6 October 1953 is another basic directive governing the Military Sea Transportation Service. MSTS's inability to meet

The following is a summary of the work done by the Committee during the year 1900.

The Committee has during the year 1900, been engaged in the study of the various questions connected with the administration of the courts, and has held several public hearings on the subject. It has also held several private hearings on the subject, and has received many suggestions from the public. It has also held several public hearings on the subject, and has received many suggestions from the public. It has also held several private hearings on the subject, and has received many suggestions from the public.

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shipper service requirements, or any complaints of a Service regarding the adequacy of sea transportation or type of accommodations which cannot be resolved by the Commander, MSTS will be referred to the Joint Military Transportation Committee for such action as the Joint Chiefs of Staff may direct, according to the aforementioned directive. The Chief of Naval Operations has directed the Commander, MSTS to refer any such inability, or any complaints about the services rendered to him prior to referral to the JMTC.¹

National Shipping Authority.-- NSA is an agency under the Maritime Administration established on 13 March 1951 to direct operations of the merchant marine where the national interest is involved. More specifically, NSA concerns itself with the following matters: charter, operation, repair and reconversion of Maritime Administration-owned or acquired merchant ships, maintenance of reserve fleets, maritime labor policies, and recommendations for purchase, charter or requisition of merchant ships for government use.

The Maritime Administration is an agency under the Department of Commerce. In order to come to a full understanding of policy in regard to the size of the MSTS Nucleus Fleet, which shall be discussed more fully in later chapters, and the priority of utilization of the various kinds of services provided by the privately-owned fleets, the Department of Commerce and the Department of Defense signed a Memorandum of Agreement on 1 July 1954.²

The Department of Defense recognized the need for and the value of a civilian shipping authority with broad powers of control over merchant shipping.

¹CNO letter ser 1309P40 of 8 October 1953, to the Commander, MSTS.

²Department of Defense Instruction Number 5030.3 dated 20 October 1954; subject, Memorandum of Agreement between the Department of Defense and the Department of Commerce, dealing with the Utilization, Transfer and Allocation of Merchant Ships.

but made it clear that military drafts on such pooled ships must be met. MSTS will, therefore, call on NSA for its needs for merchant vessels (non-combatant) to meet all military necessities. Further, MSTS in peacetime will be guided by the general policy of the Department of Defense to use privately owned and operated ships to the maximum extent practicable. In wartime MSTS will follow the same policies, with due regard, however, to specific conditions in the combat area.

The Memorandum of Agreement also defined the important question of the "permanent" size and composition of the Nucleus Fleet. An MSTS Bulletin described the Nucleus Fleet as follows:

Ships are considered to be in two categories--the Nucleus Fleet of Navy-owned and operated ships, and the Commercial Fleet of privately-owned and operated ships.

When MSTS came into being it was expected that the Nucleus Fleet would remain more or less constant while the private maritime industry would supply through charter or by operating Government-owned ships under contract, the remaining sea transportation needed to carry out the mission of the service.³

It was agreed that under present world conditions, the Nucleus Fleet assigned to MSTS would approximate the following number of ships by types:

- (a) Transports--56; (b) Dry Cargo--28; (c) Reefer Cargo--6; (d) Tankers--61;
- (e) Aircraft Carriers--2; and (f) Miscellaneous Small Craft--57.

It was further agreed that shipping requirements in addition to the MSTS Nucleus Fleet would be furnished first by United States flag berth space (very expensive); second, by time or voyage charter; third, by shipping provided by NSA under General Agency Agreement (similar to time charter); and fourth, by foreign flag shipping to meet urgent military requirements in the event United

³"How MSTS Conducts Its Operations," MSTS Magazine, October, 1954, p. 9.

AS DIRECTED IN MEMORANDUM OF AGREEMENT BETWEEN THE DEPARTMENT OF DEFENSE AND THE DEPARTMENT OF COMMERCE, DATED AUG. 1954, ALL MERCHANT SHIPPING CAPABILITY REQUIRED IN ADDITION TO THAT PROVIDED BY THE MSTs NUCLEUS FLEET WILL BE OBTAINED, CONSISTENT WITH MILITARY REQUIREMENTS AND PRUDENT MANAGEMENT, IN FOLLOWING ORDER OF PRIORITY:

FIRST:

MAXIMUM UTILIZATION OF AVAILABLE U.S. FLAG BERTH SPACE.

SECOND:

TIME OR VOYAGE CHARTER OF SUITABLE PRIVATELY-OWNED U.S. FLAG MERCHANT SHIPS VOLUNTARILY MADE AVAILABLE BY INDUSTRY. SUCH CHARTERS WILL BE KEPT TO MINIMUM NECESSARY TO MEET REQUIREMENTS WHICH FORESIGHT INDICATES CANNOT BE MET BY U.S. FLAG BERTH OPERATORS.

THIRD:

SHIPPING PROVIDED BY NATIONAL SHIPPING AUTHORITY UNDER GENERAL AGENCY AGREEMENT.

FOURTH:

WHERE U.S. FLAG SHIPPING IS NOT AVAILABLE, MSTs MAY EMPLOY FOREIGN FLAG SHIPPING TO MEET URGENT MILITARY REQUIREMENTS.

States flag shipping is not available. PLATE II on page 30 briefly depicts this part of the Memorandum of Agreement.

Navy Command Relationships

Assistant Secretary of the Navy.--The Secretary of the Navy in a directive which assigned duties and responsibilities to the Undersecretary and the Assistant Secretaries charged the Assistant Secretary of the Navy with responsibility for "Procurement and related matters affecting the Military Sea Transportation Service."⁴

In this respect then, the Commander, MSTS by delegation has responsibilities similar to a technical bureau chief. In fact certain functions which were formerly exclusively the prerogatives of the Bureau of Ships and the Bureau of Supplies and Accounts relating to ship repair and procurement are now his. For these procurement and related matters the Commander, MSTS reports to the Assistant Secretary.

Chief of Naval Operations.--The Secretary of Defense provided in his implementing directive that MSTS was to be commanded by a flag officer appointed by the Chief of Naval Operations subject to approval by the Secretary of the Navy. This directive also placed the Commander, MSTS under the authority and direction of CNO.⁵ In an Instruction issued by CNO, the Commander, MSTS was given the responsibility for acting for the Chief of Naval Operations or for the Assistant Secretary of the Navy in discharging their respective responsibilities to the Secretary of the Navy and the Secretary of Defense.⁶

⁴SECNAV Instruction 5430.7 of 20 March 1953; subject, Assignment of Duties and Responsibilities . . . to the Assistant Secretary of the Navy.

⁵Directive of the Secretary of Defense dated 2 August 1949.

⁶OPNAV Instruction 5440.20A of 6 October 1953; subject, Military Sea Transportation Service--Directive.

This CNO Directive also places the Commander, MSTS under the military command of the Chief of Naval Operations.

Fleet Commanders.--An Opnav Instruction clarifies the areas of responsibility of fleet operating forces and MSTS for sea transportation. In general, Fleet Commanders are responsible for providing mobile logistic support for fleet units, and mobile support groups. Whereas the Commander, MSTS provides sea transportation on a point-to-point basis. There are exceptions though, to these basic policies. For example, fleet commanders will provide sea transportation to established bases under their command to the extent that ships under their control permit.

The peacetime strength of auxiliary or merchant type commissioned naval ships of MSTS will be sufficient, according to this CNO directive to provide the following: (1) special missions and tasks for which civilian-manned ships are unsuitable, (2) training of personnel to be made available for assignment to MSTS, (3) a small reservoir of ships in active service available for early assignment to the fleets in the event of an emergency. Ships in this category include those types not readily procureable but for which commercial types can be substituted to meet the peacetime or emergency needs of MSTS, (4) also a small reservoir of ships to guarantee an acceptable degree of security to the Department of Defense against interruption of commercial shipping.⁷ One of the reasons for assigning a Nucleus Fleet to MSTS according to the Memorandum of Agreement previously discussed was to "provide an adequate base for necessary expansion to meet emergency or mobilization requirements in support of approved

⁷ OPNAV Instruction 4620.4 of 14 November 1952; subject, Navy policy with regard to areas of responsibility of fleet operating forces and MSTS for sea transportation and other related matters.

plans for national defense." It will be noted that the emphasis in this agreement between the Secretary of Defense and the Secretary of Commerce is on expansion to meet plans for national defense, whereas the CNO Directive seems to emphasize the existence of the Nucleus Fleet as a ready source of ships for immediate assignment to fleet commanders. A conflict of interests is apparent here.

Bureau of Ships.--An Opnav Instruction delineates the areas of responsibility for technical and material matters relating to ships assigned to MSTS. The Commander, MSTS has been given these responsibilities in regard to commissioned (USS) and in-service (USNS) ships assigned: (1) maintenance and repair, including provision for funds; (2) prescribing standards for operation, maintenance and repair; (3) continuing in effect, for commissioned ships, operating and maintenance procedures applicable to other commissioned naval ships of similar type; (4) authorize, provide funds therefor and accomplish alterations within the scope of items chargeable to MSTS operating costs; (5) acting as a Supply-Demand Control Point for Naval Industrial Fund MSTS Special Material (Category "X"); (6) filling allowances for commissioned ships assigned to MSTS on a replacement basis for all items used.

The Chief, Bureau of Ships, is responsible for the following: (1) budgeting for and performing administrative and technical work in connection with the alteration of military features; (2) budgeting and providing funds for alterations of a non-military nature which are beyond the scope of items chargeable by MSTS to operating costs; (3) rendering such technical assistance to Commander, MSTS as may be requested by the latter in fulfilling these responsibilities; (4) construction and conversion of ships assigned, or to be assigned, to MSTS; (5) budgeting for and providing material support for MSTS ships as

follows: (a) maintaining stocks of Bureau of Ships Special Material(s), and electronics equipment and components (F), necessary for support of MSTS ships; (b) maintaining stocks of repair parts for "S" and "F" cognizance equipments; (c) determining stock levels of such materials and issuing such materials to MSTS on a reimbursable basis.⁸

MSTS Command Organization

Office of the Commander

General.--The Chief of Naval Operations has directed that The Commander, MSTS establish his headquarters at the seat of government.⁹ Here he will have ready access to the Assistant Secretary of the Navy and CNO. In addition to Headquarters in Washington, MSTS is divided into four major command areas, each headed by a flag officer--the Elm Area with offices in London, the Lant Area in New York, Pac Area in San Francisco and the Westpac Area with offices in Yokosuka. Each of these Areas, except Westpac, in turn maintain subarea, or offices at various locations within the command area as volume of traffic dictates. MSTS is truly a global organization. More will be said about the Area Commands in the following section. PLATE III depicts the world-wide nature of the MSTS organization.

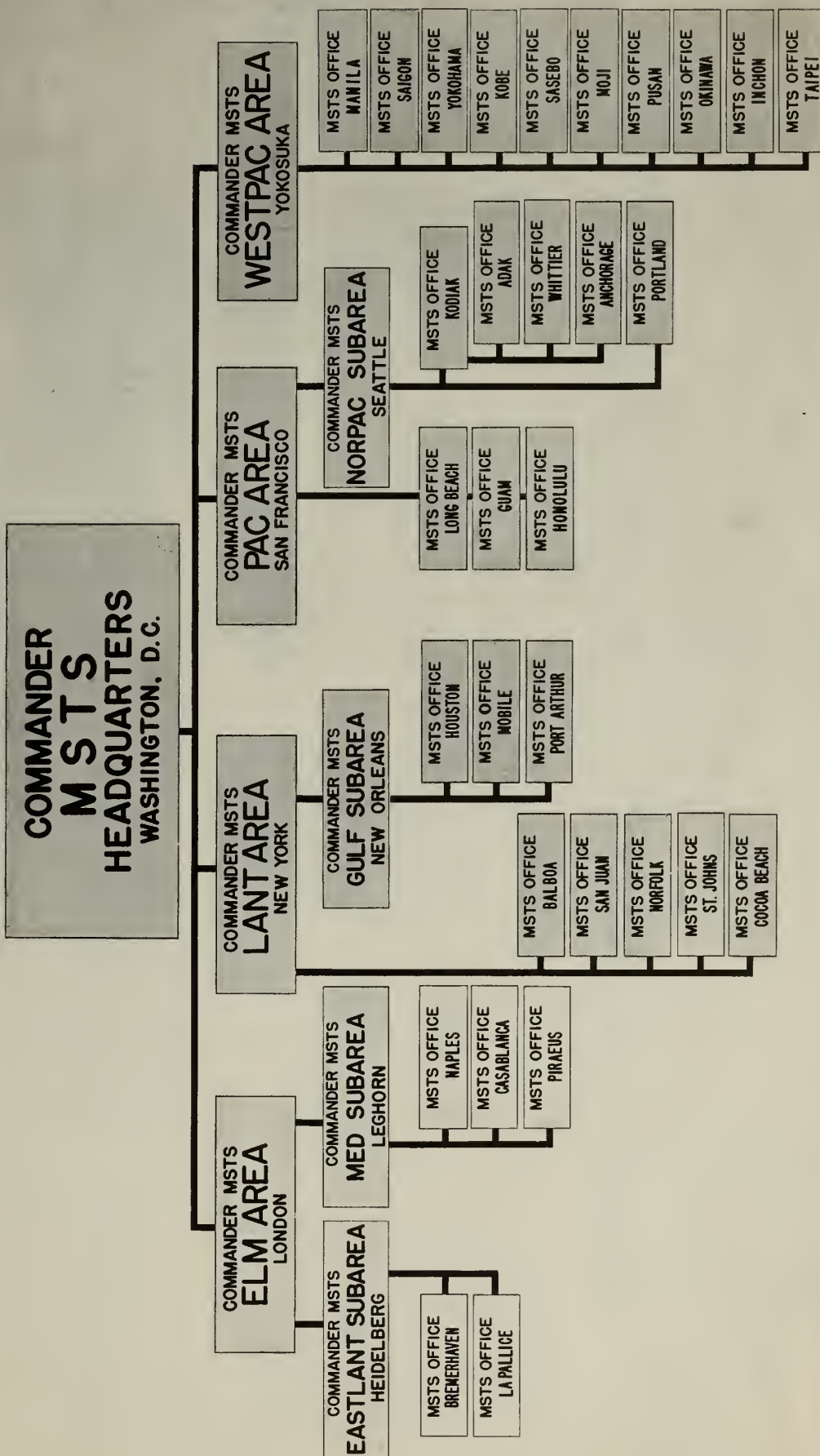
COMSTS Headquarters.--The flag officer designated as the Commander, MSTS has held the rank of Vice Admiral. The staff itself is mixed, military and civilian, with approximately 100 military to 300 civilians. The Deputy Com-

⁸OPNAV Instruction 4700.9 of 14 January 1953; subject, Ships assigned to Military Sea Transportation Service, responsibility for technical and material matters.

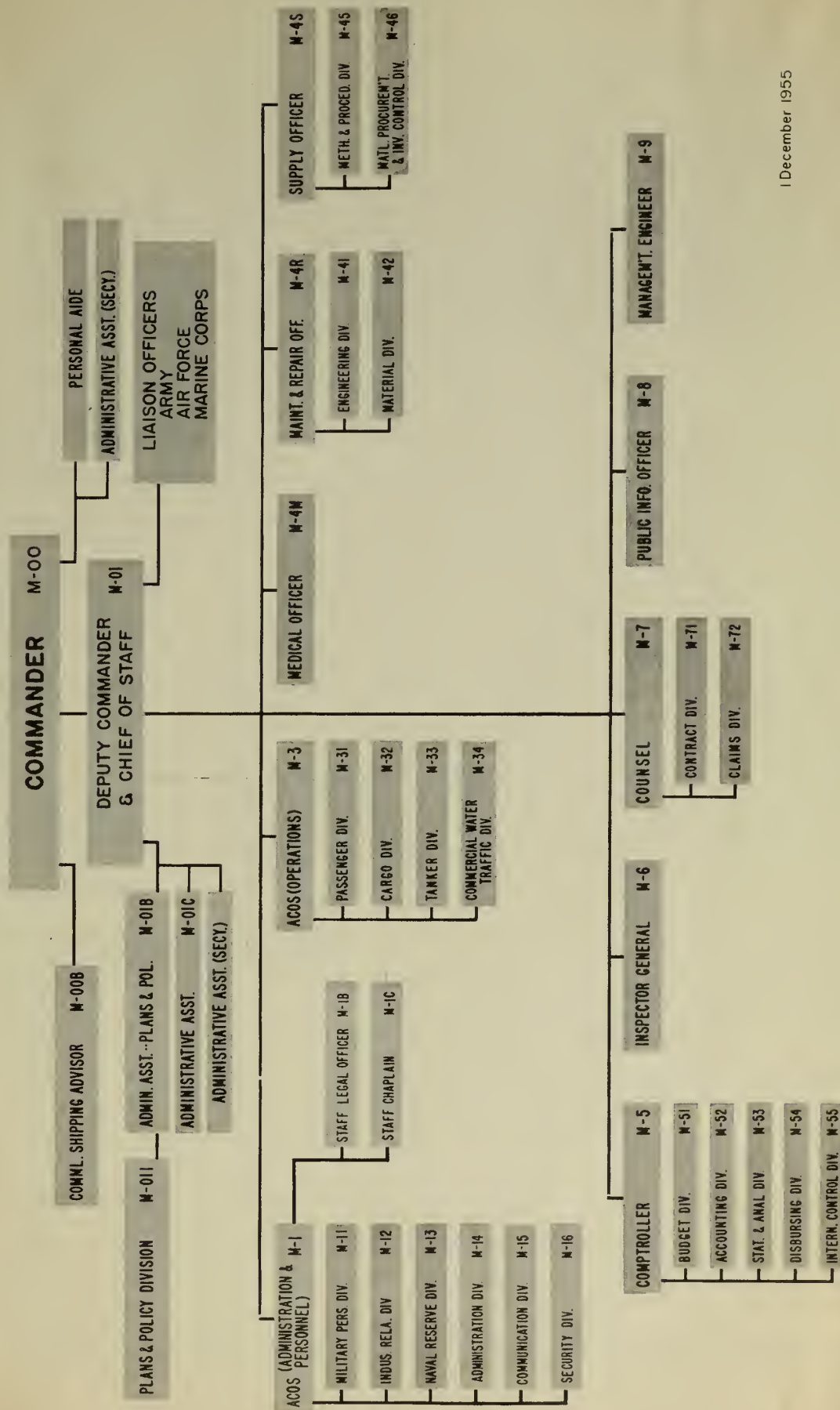
⁹SECNAV Instruction 5440.20A of 6 October 1953, op. cit.

1 MAR 1956

MILITARY SEA TRANSPORTATION SERVICE COMMAND ORGANIZATION



OFFICE OF THE COMMANDER MILITARY SEA TRANSPORTATION SERVICE



1 December 1955

mander and Chief of Staff is a Rear Admiral. Excepting certain special assistants, he has nine officers reporting directly to him--ACOS (Administrative & Personnel), ACOS (Operations), the Medical Officer, the Supply Officer, the Maintenance and Repair Officer, Comptroller, Inspector General, Counsel and Public Information Officer. Although PLATE IV indicates a tenth reporting officer, the Management Engineer, it is understood that as of March 1, 1956 this position was not filled, nor would it be.

The Commander.--There have been but two Commanders in the short six years of MSTs' existence, Vice Admiral William M. Callaghan, USN, formerly Chief, Naval Transportation Service, and Vice Admiral F. C. Denebrink, USN. His mission is described as "To command the Military Sea Transportation Service, ashore and afloat, world-wide, acquire and employ ocean shipping and shipping space, and establish and maintain supporting facilities as required for accomplishment of the MSTs mission."¹⁰ COMSTS functions in the plans, policies and procedures area; he has delegated authority and responsibility for implementation, and actual administration and operation of ships, to his Area Commanders.

Administration and Personnel.--The Assistant Chief of Staff for these two prime functions is charged with responsibility for insuring effective administration, utilization and training of all MSTs personnel, military, civilian and Naval Reserve, and for efficient administration of the Office of COMSTS, and supervision of matters pertaining to administration of MSTs subordinate commands ashore. To assist him in these duties, he has Military Personnel, Industrial Relations, Naval Reserve, Administration, Communication and

¹⁰COMSTS Staff Instrucion 5440.1 of 16 July 1953; subject, Organization, Office of the Commander, Military Sea Transportation Service.

Security Divisions. The staff Legal Officer and the Staff Chaplain also report through him.

Civilian personnel policies are set by the Commander, MSTS with the advice of this officer; military personnel policy emanates from the Bureau of Personnel and COMSTS. While overall civilian allowances are established by COMSTS for the commands, all the work connected with recruitment, hiring, firing etc. is delegated to the Commands. Manning scales for the ships are also a COMSTS responsibility but crewing and personnel administration is done at the area command level. In almost all cases policy and guidance established by COMSTS requires detailed implementation at the command level.

Operations.--The ACOS (Operations) directs the operation of all ships of the MSTS Nucleus Fleet and all other ships acquired by MSTS, as well as acquired shipping space. He adjusts MSTS lift capability to conform to requirements and takes approved action to dispose of excess ships. He is also responsible for the efficient and economical employment of MSTS lift capability. Among his assistants is a Director, Passenger Division who directs operations of passenger ships; a Director, Cargo Division who plans for and provides ocean cargo transportation to meet requirements; a Director, Tanker Division operates tankers and oilers. It is important to note that while operational control of all the other type ships is vested in Commanders of the Areas, not so with the tanker fleet. Because of the centralized nature of the petroleum procurement program through ASPPA, and also because of world-wide operating routes of tankers, operational control is centered within this unit. The other Division Director under the ACOS (Operations) is that of Commercial Water Traffic, responsible for negotiating and administering as contract officer, contracts and special agreements with commercial steamship companies for use of commercial

shipping and shipping space.

Maintenance and Repair Officer.--Although this officer is not dignified with the title of "Assistant Chief of Staff," he is nevertheless a very important individual, for it is his job to insure material readiness of all ships assigned to MSTS. His responsibilities, however, relate almost solely to staff functions of a technical advisory nature, operating responsibility reposing in the area commands. Among his tasks are those of executing and administering, as Contracting Officer, contracts relating to the repair or alteration of government-owned ships assigned to MSTS, promulgating policies and procedures pertaining to maintenance and repair activities of the entire MSTS organization, and submitting recommendations to COMSTS on the annual budget for M & R activities. He operates with two divisions, the Engineering Division which formulates and implements policy with respect to technical support of MSTS ships, and the Material Division who plans for and provides procedures for material logistic support for MSTS ships including resolving technical material problems. This latter division works closely with the Supply function, in that it furnishes the Supply Officer with the necessary technical information to procure M & R material and spare parts needed for replacement.

Other Staff Officers.--The Medical Officer implements policies and procedures for providing adequate medical service for protection of health of MSTS personnel and passengers, and insures acceptable sanitary standards in MSTS facilities. The Supply Officer insures optimum supply support and service to MSTS ships by utilizing the Navy Supply System and by effective independent procurement as necessary. The Inspector General assists the Commander in attaining the highest possible degree of efficiency and economy in organization.

administration and operation throughout the MSTS organization including the Office of COMSTS. He conducts periodic inspections of subordinate commands and ships to ascertain the degree of efficiency and economy in operation and management. The Counsel advises the Commander, MSTS on matters of law and furnishes legal advice and services to MSTS, except for matters of ship damage claims sounding in tort and other administrative law under the cognizance of the Judge Advocate General. The Public Information Officer satisfies public interest in MSTS as an instrument of national security. The Comptroller insures the proper performance of functions relating to budgeting, accounting, auditing, disbursing, statistics and tariffs throughout the command. The Office of the Comptroller will be studied in more detail in a later chapter.

Area Commands

Organization.--The Area Commands are organized similarly to COMSTS headquarters with the same organizational components described above for the Office of the Commander. The major difference lies in the fact that emphasis in the area commands is in implementing plans, policies and procedures developed at COMSTS headquarters, through actual administration and operation of ships. The subarea commanders are assigned similar responsibilities, except on a smaller scale. The Westpac Area Command has no subareas, operating entirely through ten offices. Pac Area administers its affairs through the Norpac Subarea located in Seattle. The Lant Area operates through two subareas--Gulf at New Orleans and Caribbean at Balboa. The Elm Area has two subareas also--one at Heidelberg, named the Eastlant Subarea, and another termed the Med Subarea at Leghorn.

As has been said, MSTS offices are established where volume of traffic justifies an activity to coordinate shipper services in connection with auth-

orized transportation of personnel and cargo. These offices also exercise local operational control of MSTs ships while in port, provide for their logistic support and assist in expediting turnaround. Rapid expansion and contraction is a feature of these organizational units, according to traffic requirements which may change overnight. They may range from a single officer to an office of thirty personnel or even more. The Pac Area maintains eight offices in addition to the area and subarea offices. The Lant Area has seven such offices in addition to their area and subarea offices.

To give an understanding of the size of some of the Area Commands the following figures are indicated: COMSTSLANT area has in its organization ashore about 125 military and 675 civilians, totalling 800; COMSTSPAC Area has about 130 military and 500 civilians for a total of 630; COMSTSELM Area, 100 military, 20 civilians; and COMSTSWESTPAC Area, 275 military and 190 civilians. These data comprise the shore organization alone, it must be emphasized and are taken from the MSTs Financial and Statistical Report of August, 1955.

Authority.--It will be recalled that one of the major weaknesses of the former NTS was in its lack of centralized control and the relative autonomy of its field offices. While decentralized control has been maintained in MSTs it has not been at the sacrifice of a strong central office able to develop, promulgate and enforce plans, policies and procedures.

As has been mentioned in a previous paragraph, area commands have a great deal of autonomy in personnel administration. Also, it has been mentioned that operational control of MSTs ships is exercised locally with the exception of tankers. Ships assigned to continental commands operate under general sailing schedules promulgated by COMSTS, but WESTPAC Area even schedules its

own ships, due to unusual conditions existing within that Area Command.

Headquarters in Washington writes shipping contracts by which either a commercial ship or shipping space is procured--except again for the Western Pacific Area which conducts all of its own chartering. The Area Commanders administer master contracts negotiated by Washington, but they can arrange for shipments by straight commercial tariffs of less than 3,000 tons--more than this must be approved by COMSTS as such shipments are the most expensive. Each Area Commander conducts his own chartering for tug hire, pilotage, etc.

Local commands procure material in support of its operations from the local Navy Supply System outlets, such as Naval Supply Centers or Depots. In emergencies local procurement is also authorized. Most of the minor claims involving cargo or vessel damage are settled by local area counsels and much of the advance work on larger and more important claims referred to COMSTS is done by local area commands. Both shoreside and afloat internal administration are conducted entirely at the local level as long as policies and procedures established by COMSTS are adhered to. Repairs and alteration are a direct responsibility of the area commander and are accomplished locally under his supervision. This includes work specifications, contracts, inspection and payment for work done in area commands.

CHAPTER IV

MSTS IN OPERATION

The Fleets

Composition of the Nucleus Fleet

General.--As of 1 December 1955 the MSTS Fleet consisted of 234 ships and craft divided into two categories, the Nucleus Fleet of Navy-owned and operated ships and the Commercial Fleet of privately-owned and operated ships. The varying demands of the shipper services require many different types of vessels--cargo ships of all sizes and types, aircraft carriers, ammunition ships, troop and dependent transports, small and large tankers, reefers, LST's and LSM's.

Commissioned Ships (USS).--These are the regularly commissioned ships of the United States Navy, manned by regular officers and crews and subject to all the rules and regulations that pertain to the U. S. Navy. The Fleet consists of twelve ships--six large passenger ships (AP's), two large oilers (AO's) and four aircraft carriers (CVU's) used for transportation of aircraft.

U. S. Naval Ships (USNS).--As of 1 December 1955, there were 178 USNS ships in commission. These are government-owned, civilian manned ships which are grouped into two categories, civil-service manned and contract operated.

Most of the USNS ships civil-service manned were transferred to the Navy from the Army Transport Service. There were as of the date indicated 106 of these in service, comprising 12 large passenger ships of the AP type and 29

CHAPTER II

THE HISTORY OF THE

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medium types, 18 dry cargo and 3 reefers, 9 amphibious, 25 coastal and 10 support type vessels.

Civil service-manned ships are manned and organized in accordance with commercial standards, that is, with deck, engine, steward and purser departments. There is an unusual feature peculiar to MSTS ships--a military department composed of uniformed Navy personnel, line, Medical, Nurse and Chaplain Corps officers and enlisted personnel. The senior line officer is the commanding officer, military department--COMILDEP. He is not ordinarily subject to the orders of the master of the ship and assumes the authority of the commanding officer of a ship as far as the passengers on board are concerned. At the same time he must not interfere with the master's responsibilities in the operation, navigation and maintenance of the ship.

There are also 72 contract-operated USNS ships. These are Navy-owned large tankers (33) operated by private companies under contract and manned in the manner of the merchant marine, 36 LST's operated by Japanese crews in intra-area traffic and 3 coastal gasoline tankers (AOG's).

Composition of the Commercial Fleet

Chartered vessels.--The Commercial Fleet, sometimes called the "variable fleet" because the number of ships in this category varies from day to day, is comprised of time and voyage charters which are commercially owned and operated for MSTS, and of National Shipping Authority vessels. As of 1 December 1955 there were 33 chartered vessels consisting of 20 time charters (cargo), 4 time and 4 voyage tankers, and 1 passenger and 4 cargo ships chartered from foreign flag operators. Eleven cargo ships were chartered under General Agency Agreements with the National Shipping Authority. These are government-owned (Maritime Administration) ships taken out of mothballs, made available through

AS OF 1 DEC 1955

MSTS FLEET

234 VESSELS & CRAFT

CONSISTS OF

NUCLEUS FLEET

190 VESSELS & CRAFT

CONSISTS OF

12 U S S

CONSISTS OF

PASSENGER
6 LARGE

OILERS
2 LARGE

CARRIERS
4 UTILITY

178 U S N S

CONSISTS OF

106 CIVIL SERVICE

CONSISTS OF

PASSENGER
12 LARGE
29 MEDIUM

CARGO
18 DRY
3 REEFER

MISCELLANEOUS
9 AMPHIBIOUS
25 COASTAL
10 SUPPORT

72 CONTRACT OPERATED

CONSISTS OF

TANKERS
33 LARGE

MISCELLANEOUS
3 COASTAL (AOG)
36 AMPHIBIOUS

COMMERCIAL FLEET

44 VESSELS & CRAFT

CONSISTS OF

33 CHARTERED VESSELS

CONSISTS OF

CARGO
20 TIME
0 VOYAGE

TANKERS
4 TIME
4 VOYAGE

FOREIGN FLAG
1 PASSENGER
4 CARGO (MISC.)

11 NAT. SHIPPING AUTHORITY

CONSISTS OF

CARGO
11

IN ADDITION TO MSTS FLEET OF 234 SHIPS,
260 SAILINGS OF AMERICAN BERTH LINE
VESSELS CARRIED DRY CARGO FOR MSTS
DURING THE MONTH OF NOVEMBER.

the National Shipping Authority to commercial companies who in turn operate them under General Agency Agreement in the service of MSTs. They are manned and organized the same as other privately-owned ships of the same class. PLATE V graphically depicts various categories of ships in the MSTs Fleet as of 1 December 1955.

Operations

Personnel

Various categories.--The heterogeneous nature of MSTs is well exemplified by its personnel which can be divided into three general classes: (1) military personnel assigned to MSTs, (2) civil service personnel employed by MSTs and (3) civilian employees of companies who operate for MSTs under contract or charter. The latter are, of course, not strictly MSTs employees but they must always be reckoned with.

As of the last quarter of 1955 total MSTs personnel, military and civilian, declined from a peak of 29,000 plus in July, 1951 (height of the Korean operations) to a little over 17,000. Of this number, about 8,300 were unlicensed civilian marine, 4,250 Navy enlisted, 2,100 civil service ashore, 1,500 licensed civilian marine and 950 Navy officers. PLATE VI shows the present status of TOTAL MSTs personnel.

Civil service personnel.--MSTs has two kinds of civil service personnel, those of the regular classified service usually found in government offices ashore, and civilian marine personnel who man the USNS ships. Administration of the shore civilian employees is comparatively simple as it follows the procedures set forth in the Navy Civilian Personnel Instructions (NCPI) which themselves are patterned after regulations of the Civil Service Commission. The marine civil service personnel are another story. These were inherited by

the highest efficiency in carrying out its business
 and must have the most efficient management in the world. It must
 be able to do this in the most efficient manner of the world.
 It must be able to do this in the most efficient manner of the world.
 (1921-1922)

CONCLUSION

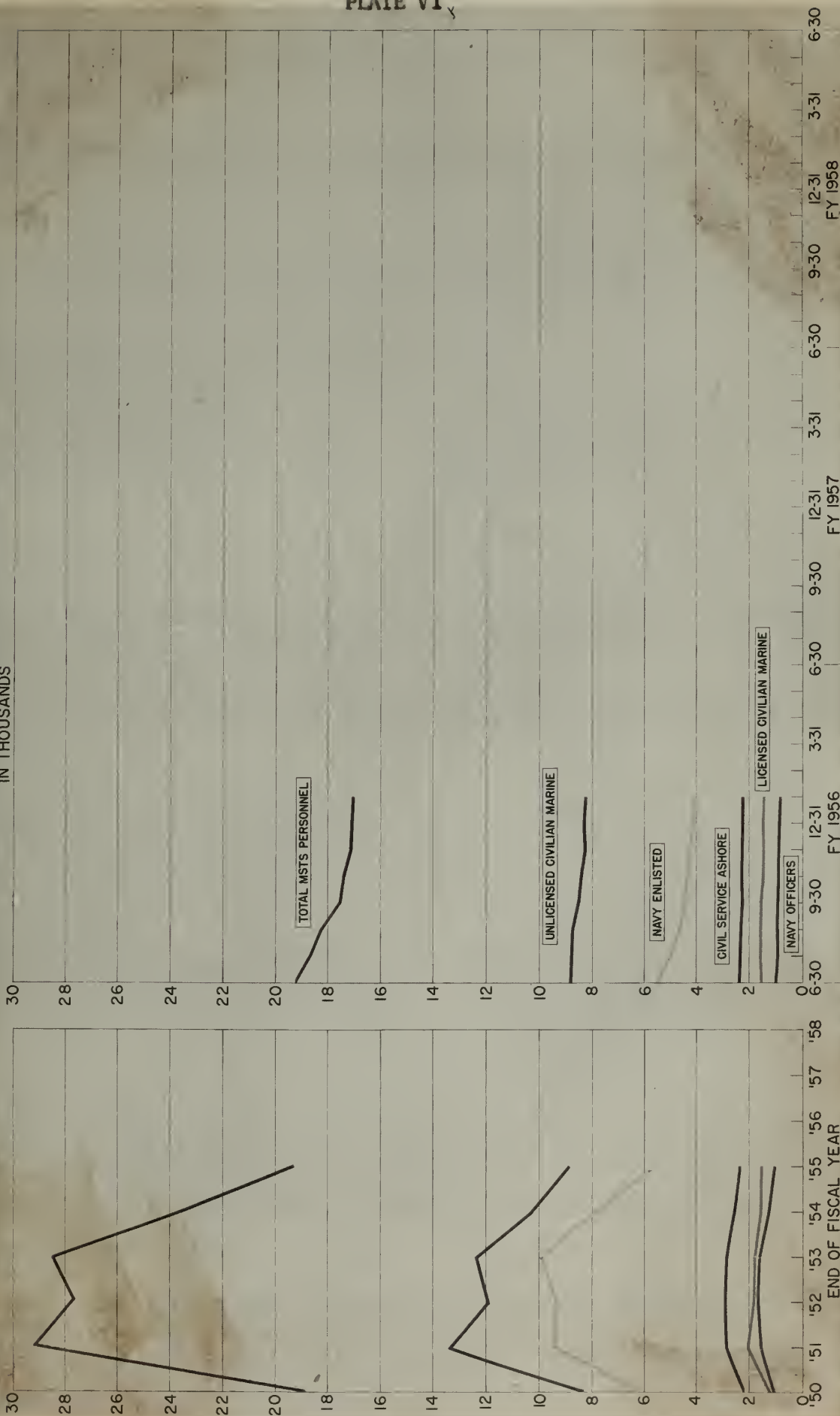
CONCLUSION

Firstly, the importance of the business world is not only in the
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TOTAL MSTs PERSONNEL IN THOUSANDS



the Navy with the transfer of the Army Transport Service ships to MSTS and they constitute a majority of personnel employed by MSTS. These employees are civil service personnel of the government, subject to Civil Service Regulations and the Veterans Preference Act, etc., but they also are basically members of the seagoing merchant marine and as such are required to meet Coast Guard standards. Their wages are fixed and adjusted from time to time in accordance with the prevailing rates of the maritime industry. Because of the peculiarities of this group they are administered in accordance with Civilian Marine Personnel Instructions (CMPI) which is similar to the NCPI.

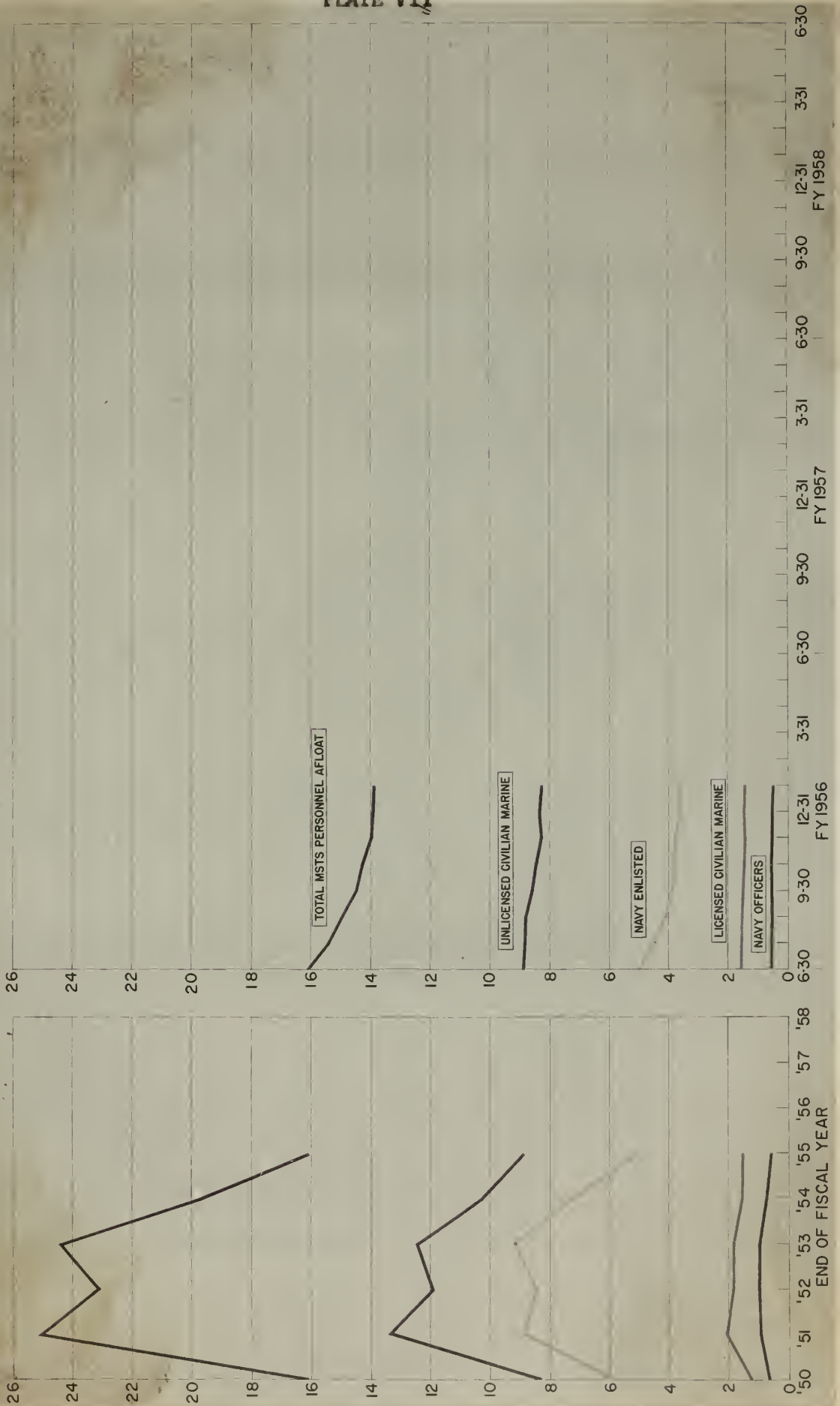
The following personnel figures are of interest: (1) of a total of 14,000 plus MSTS personnel afloat, about 9,500 are licensed and unlicensed civilian marine employees. The rest are Navy officer and enlisted personnel, (2) of the total of a little over 3,000 MSTS personnel ashore, about 2,200 are civil service employees and the rest are Navy personnel. PLATES VII and VIII indicate present status. PLATE IX illustrates how well paid are the civilian marine personnel employed by MSTS. For example, an able bodied seaman receives a basic annual wage of \$3,773.00 plus overtime, bonuses, vacations, hospitalization, sick leave, quarters and subsistence. Overtime itself averages an additional 30% of the base pay, it is estimated.

Military personnel.--Naval personnel may receive assignments to MSTS ashore, either in Headquarters in Washington, or in one of the area commands, subarea commands or offices anywhere in the world, aboard one of the commissioned ships (USS), or in one of the small detachments aboard the Navy-owned, civilian marine manned ships. Administration of this class of personnel follows that of the Navy generally and hence is no problem.

Contract and charter company employees.--Contract employees are obtained

TOTAL MSTs PERSONNEL . . . AFLOAT

IN THOUSANDS

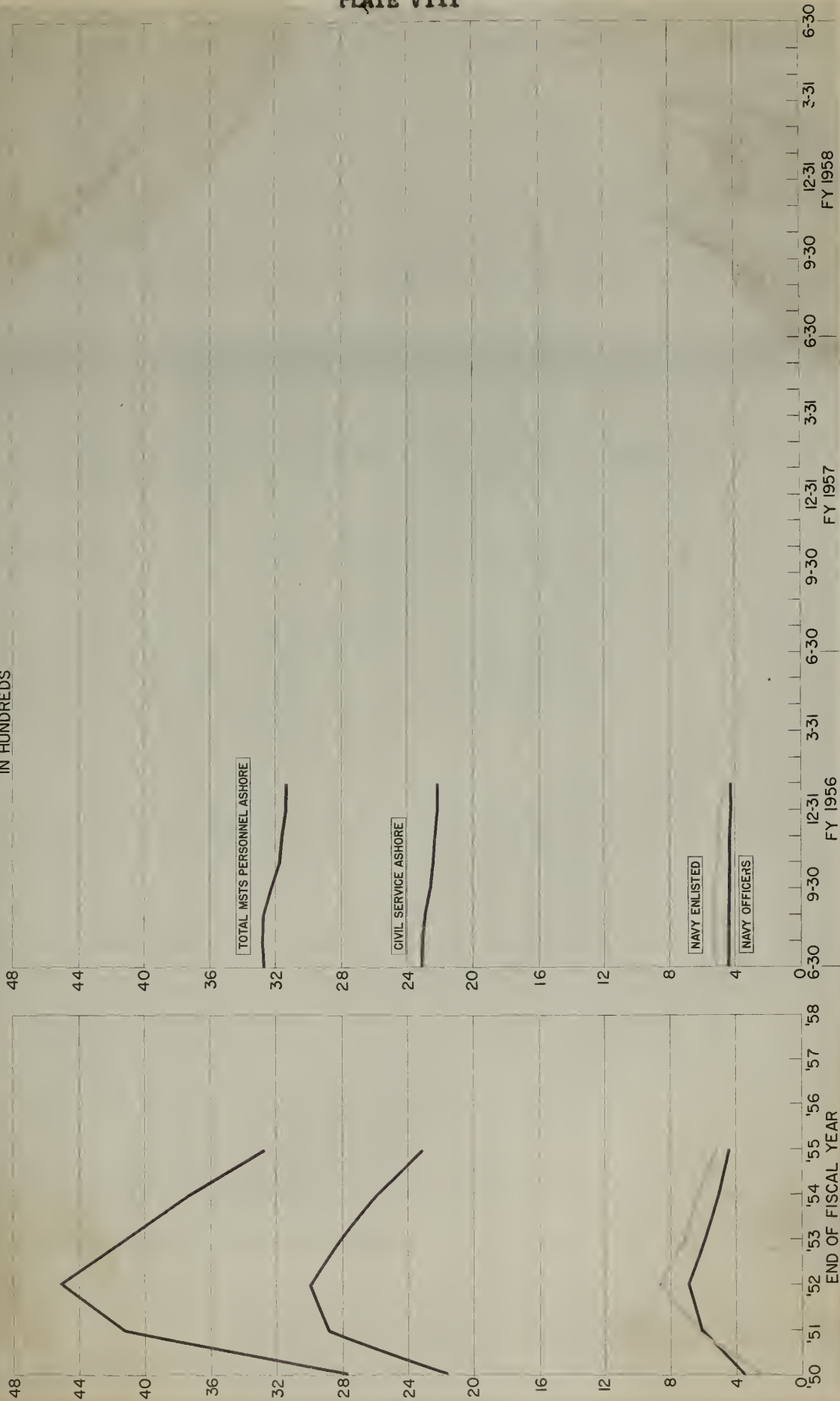


VI

M 4

TOTAL MSTs PERSONNEL ASHORE

IN HUNDREDS



BASIC ANNUAL WAGES PAID BY MSTs TO CIVIL SERVICE CREWS

AS OF 16 JAN 1956

TYPE SHIP	MASTER	CH. ENGR.	1st OFF. 1st ASST. EN.	2nd OFF. 2nd ASST. EN.	3rd OFF. 3rd ASST. EN.	CH. RADIO OFFICER
P-2 TRANSPORT CLASS A-3	\$15,600	\$13,121	\$9,184	\$7,463	\$6,948	\$7,234
C-4, C-3 TRANSPORT CLASS A	\$12,738	\$11,341	\$7,819	\$6,929	\$6,395	\$6,810
C-2, VC-2 CARGO CLASS B	\$12,183	\$11,064	\$7,542	\$6,652	\$6,137	\$6,020
R1, CI-MAV-1 LST, LSM CARGO, CLASS D	\$11,612	\$10,253	\$7,127	\$6,296	\$5,722	\$6,020
N-3 AKL CARGO CLASS E	\$11,612	\$9,976	\$6,988	\$6,158	\$5,583	\$6,020

UNLICENSED RATINGS

	* EAST COAST	** WEST COAST
BOATSWAIN	\$4808 - 5876	\$5,460 - 7512
CARPENTER	4501 - 4995	5,100 - 5,880
A. B. SEAMAN	3,773	5076
ORDINARY SEAMAN	2930	4020
ELECTRICIAN	5609 - 7,185	4,992 - 7,488
MACHINIST	4973	4,992
OILER	3,773 - 4,083	3,930 - 4,224
FIREMAN-WATERTENDER	3,773	3,930
CHIEF STEWARD	4,683 - 9,368	6,036 - 10,091
CHIEF COOK	4,334 - 5,313	5,676 - 6,432
STEWARD UTILITYMAN	2,908	4,020
PURSER	5,676 - 6,967	5,676 - 6,967

* 40 HOUR WORK WEEK AT SEA.

** 56 HOUR WORK WEEK AT SEA, DECK AND STEWARD DEPARTMENTS;

40 HOUR WORK WEEK ENGINE DEPARTMENT.

IN ADDITION TO RATES SHOWN PERSONNEL RECEIVE OVERTIME, BONUSES, VACATIONS, HOSPITALIZATION, SICK LEAVE, QUARTERS AND SUBSISTENCE.

CREW WAGES AND ALLOWANCES REPRESENT... **41%*** OF TOTAL SHIP OPERATING EXPENSES OF CIVIL SERVICE MANNED MSTs VESSELS. OVERTIME AVERAGES AN ADDITIONAL **30%*** OF BASE PAY SHOWN.

* ESTIMATED

through operating contracts with American companies for the operation of Navy-owned, company-manned and operated tankers. These ships are manned exactly as privately owned ships would be--through the union hiring halls. As of March, 1956, the MSTS Nucleus Tanker Fleet consisted of 34 contract-operated tankers, 31 of which are standard T-2 types of World War II vintage. These are 52-foot ships with a capacity of 140,000 barrels and steam at 14½ to 16 knots. Many of them will steam more than 100,000 miles between overhauls. The official designation of contract operated tankers is: MSTS Tankers, in service (USNS) (contract-operated). They carry the designation "U. S. Naval Ship" above their names.¹

The other main source of contract personnel is through an operating contract with a Japanese company in the Far East for operation of LST's under MSTS direction. They are manned by Japanese and are paid in accordance with Japanese wage standards.

Charter company employees are those merchant mariners serving in the "variable fleet" of time and voyage chartered ships and ships under General Agency Agreement.

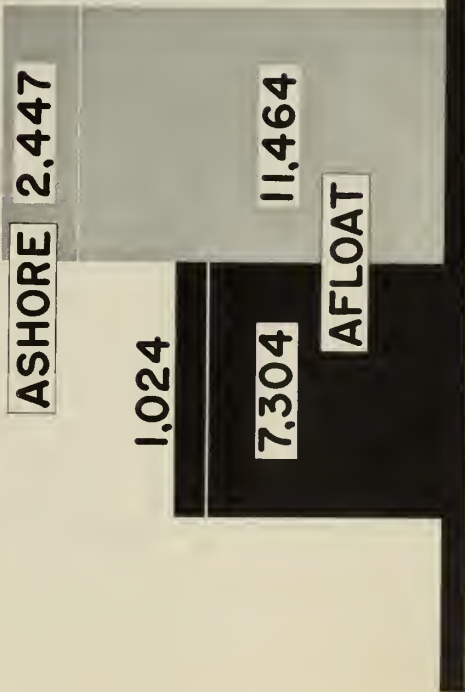
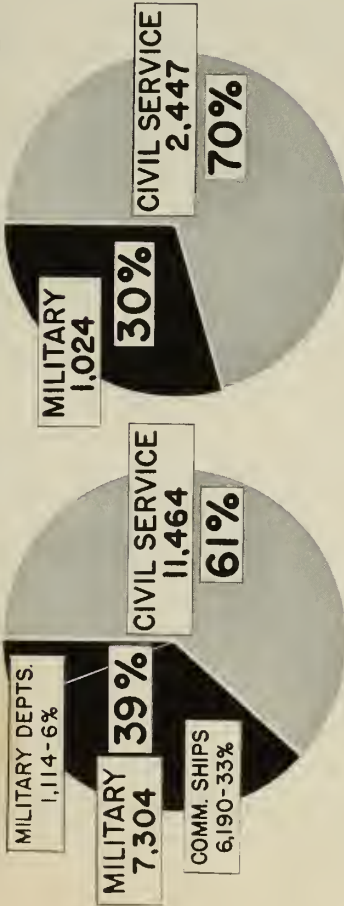
PLATE X clearly demonstrates the large extent that MSTS operations provide employment to the American merchant marine through private operators. Almost as many persons are employed indirectly by MSTS as directly--16,237 to 17,695 as of 1 October 1955. These were divided as follows: indigenous personnel (Japanese), 2,183; contract tankers, 1,651; General Agency Agreement, 1,755; time and voyage charter, 1,786; and berth liners, 8,862.

¹"Tankers," MSTS Magazine, March, 1956, p. 9.

PERSONNEL DIRECTLY EMPLOYED BY MSTs

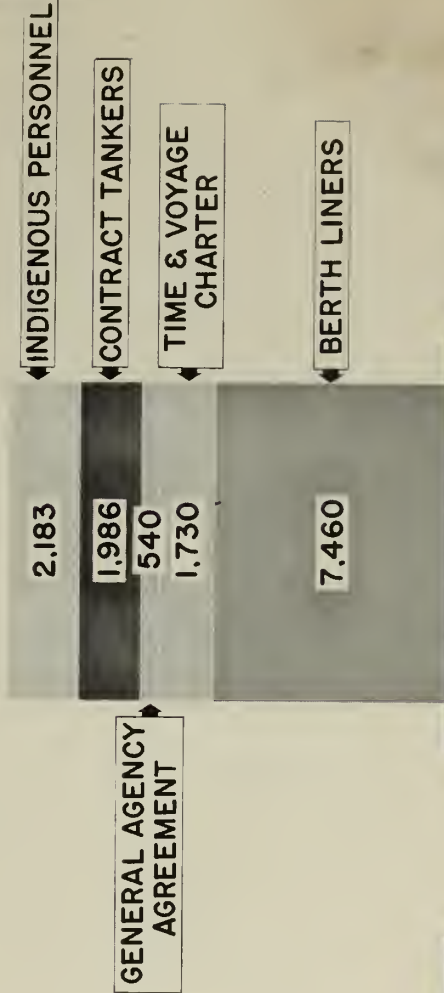
ADDITIONAL EMPLOYMENT PROVIDED DIRECTLY BY MSTs OPERATIONS

AFLOAT 18,768 ASHORE 3,471



MILITARY CIVIL SERVICE
8,328 + 13,911

PLATE X



GRAND TOTAL.....
13,899
22,259
36,158

1 FEB. 1955

Maintenance and Repair

Standards.--Two sets of standards for maintenance and repair are necessary in MSTS because of two different categories of ships: Commissioned ships (USS) that are maintained in accordance with the same standards of other Navy ships as prescribed by the Bureau of Ships in its Buships Manual; and USNS ships in-service, both civil-service manned and contract operated, Navy-owned, which are certified by the Coast Guard in accordance with their standards prescribed for merchant ships of the same class, and which are required to remain in-class in accordance with standards set by the American Bureau of Shipping.

CONSTS has authorized MSTS area and subarea commanders to deviate from the Buships Manual, used as a guide, even though technically not applicable to MSTS in-service ships, provided their decisions to do so are based on sound, modern commercial practices and are in no case below the minimum standards required by the appropriate regulations of the Coast Guard and the American Bureau of Shipping.

Ships in-service (USNS) (civil service-manned).--Responsibility for maintenance of these ships rests with the area or subarea commander to whom the ship is assigned administratively. Repairs are accomplished either in private shipyards, MSTS maintenance shops at subordinate commands or by the ship's force.

The procedure followed is essentially the same as for ships of the regular Navy--when ready for repair (in this case usually upon returning from a voyage), each department prepares repair lists which, upon arrival of the ship, are reviewed at an "arrival" or repair conference. Here it is decided what items shall be undertaken, and by whom (shipyard, maintenance shop, ship's force). Bids are then solicited for the shipyard items. The work is inspected

as it proceeds by representatives of the shore M & R division. Work must be in accordance with the standing of the vessel under the Coast Guard and ABS requirements.

Ships in commission (USS).--These ships may be repaired in naval shipyards, commercial shipyards or maintenance shops as circumstances dictate. Much the same procedures obtain as described above for in-service ships.

Funding.--Funds for both the USS and USNS ships are provided to each administrative commander for each ship assigned on the basis of a budget submitted by the local commander to COMSTS and approved by him, for the forthcoming fiscal year. What particular repairs are accomplished lie entirely within the discretion of the administrative commander, provided, of course, that he maintains standards prescribed by COMSTS. Alterations are not made without prior approval of COMSTS, and in case of commissioned ships, by Buships if a military characteristic is involved. Usually alterations are accomplished on a fleet-wide basis after the opinions of all ships of a type have been solicited and evaluated in regard to each specific alteration recommended.

Ships in-service (USNS) (contract operated).--Still another system is followed in maintaining the civil service-manned, contract operated tankers of the MSTN Nucleus Fleet. These ships are under the direct operational control of COMSTS who acts through the Contracting Officer (Director, Tanker Division). The Contracting Officer in turn looks to the COMSTS M & R Officer for guidance. Again, safety at sea features of material readiness are governed by Coast Guard requirements, and seaworthiness, watertight integrity and maximum loading responsibilities are to a major degree controlled by standards set by the American Bureau of Shipping.

General preventive maintenance is conducted through material inspections

by subordinate commands on a case basis as directed by COMSTS. Annual overhaul, voyage repairs and alterations are also supervised by area commands as directed in specific cases by COMSTS. All industrial work is done in commercial yards under subcontracts. The contract operator pays for the work and is reimbursed by the Navy as an item of expense under the basic contract.

As an example of the distribution of repair expenditures, for the FY 1954 about \$46.5 million were planned for MSTS ship repairs and alterations, of which \$43 million were financed through the Industrial Fund (to be discussed in a following chapter), and a little over \$3 million by appropriated funds for capital improvements and military features. Of the total, \$40.5 million, or 87% were planned for private yards, 5% for Navy yards and 8% for MSTS M & R shops.

Operational Problems

Coordination.--Commercial companies operating on a regular schedule depend upon the shipper to regulate the flow of traffic in accordance with the dictates of the schedule. Not so with MSTS and his customers! Traffic moved by MSTS originates in the Army, Navy, Air Force and other organizations who are sanctioned by the Department of Defense. These three basic shippers each having problems of their own which result in differing requirements and demands create a real problem of coordination both in the area of requirements and ships.

Priorities.--Because the government of the United States has made it a policy to support the U. S. Merchant Marine, MSTS has another operational problem due to the magnitude of the water-borne overseas traffic of the Department of Defense. Much, though by no means all, of the responsibility for implementing this policy falls upon MSTS.

For reasons of economy, MSTS Nucleus Fleet ships receive first priority--

these Navy-owned ships are used first. Since there are but few of these ships in service, the majority of cargo must then be moved in government-owned ships, non-Navy, or by the U. S. Merchant Marine. Second priority has been given to the berth operators--those shipping concerns operating ships on regular schedules over certain trade routes. Since this type of shipping has certain inherent limitations, such as numbers of sailings, capacities of ships, permanent space reservations by civilian concerns, other sources must be found. The third priority falls to the private operators also, in the form of time and voyage charters which are easy to obtain when commercial cargo, which is more profitable, is scarce, but difficult to obtain when commercial cargo is available. The last recourse is to the government-owned ships in moth-balls under the Maritime Commission. These ships when required by MSTs to meet its demands are made available to the National Shipping Authority who turns them over to private steamship operators under General Agency Agreements for service with MSTs.

PLATE XI indicates how well MSTs assists the government in its policy of supporting the merchant marine. From 1952 through 1955 75%, 73%, 70% and 64% respectively, of total MSTs operating costs were paid directly to the private maritime industry. In dollars, these percentages represent from \$475 million in 1952 to \$272 million in 1955.

Special lifts.--These really present problems. A shipper service may have a project underway at some remote spot where there is no commercial service nor, perhaps, harbor or unloading facilities. Perhaps an entire amphibious operation is required, or it may be a minor quantity of special value to the shipper. Any of these conditions may require special equipment, agreements and complex coordination. Examples, which could well be the subject of another

MSTS SUPPORT OF MERCHANT MARINE

B2-5

PLATE XI

FY 1952



TOTAL OPERATING COST OF MSTS
\$ 638,881,293

FY 1953



TOTAL OPERATING COST OF MSTS
\$ 700,006,355

FY 1954



TOTAL OPERATING COST OF MSTS
\$ 548,937,544

FY 1955



TOTAL OPERATING COST OF MSTS
\$ 422,946,378

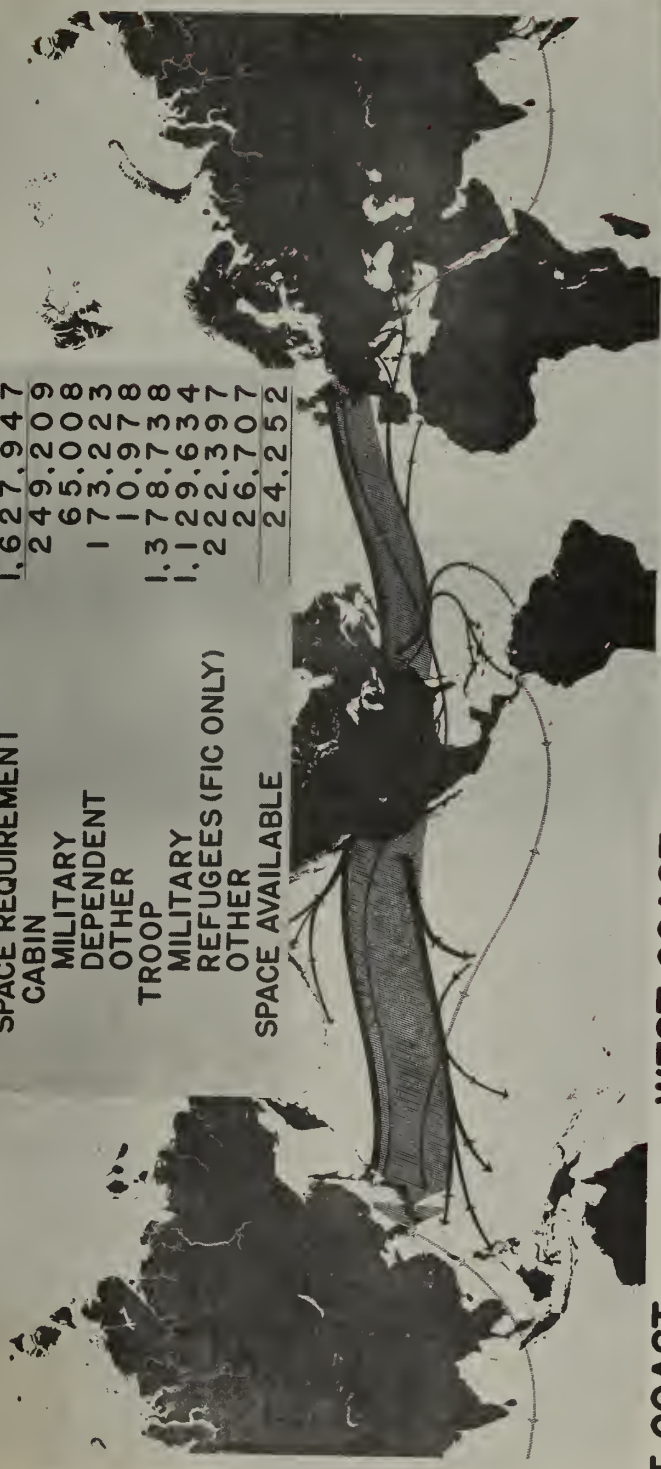
PI-5

MSTS PASSENGER TRAFFIC

PASSENGERS LIFTED DURING FISCAL YEAR 1955

TOTAL PASSENGERS 1,652,199

SPACE REQUIREMENT	1,627,947
CABIN	249,209
MILITARY	65,008
DEPENDENT	173,223
OTHER	10,978
TROOP	1,378,738
MILITARY	1,129,634
REFUGEES (FIC ONLY)	222,397
OTHER	26,707
SPACE AVAILABLE	24,252



WEST COAST CABIN



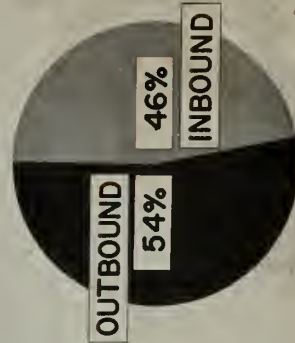
WEST COAST TROOP



EAST COAST CABIN



EAST COAST TROOP



MSTS DRY CARGO TRAFFIC
DRY CARGO LIFTED DURING FISCAL YEAR 1955
TOTAL LIFT 16,042,402 M/T'S



NORTH PACIFIC

INBOUND
196,440

15%

85%

OUTBOUND
1,093,037

PACIFIC

INBOUND
1,042,743

27%

73%

OUTBOUND
2,855,734

GULF

INBOUND
322,686

20%

80%

OUTBOUND
1,326,217

ATLANTIC

INBOUND
897,134

22%

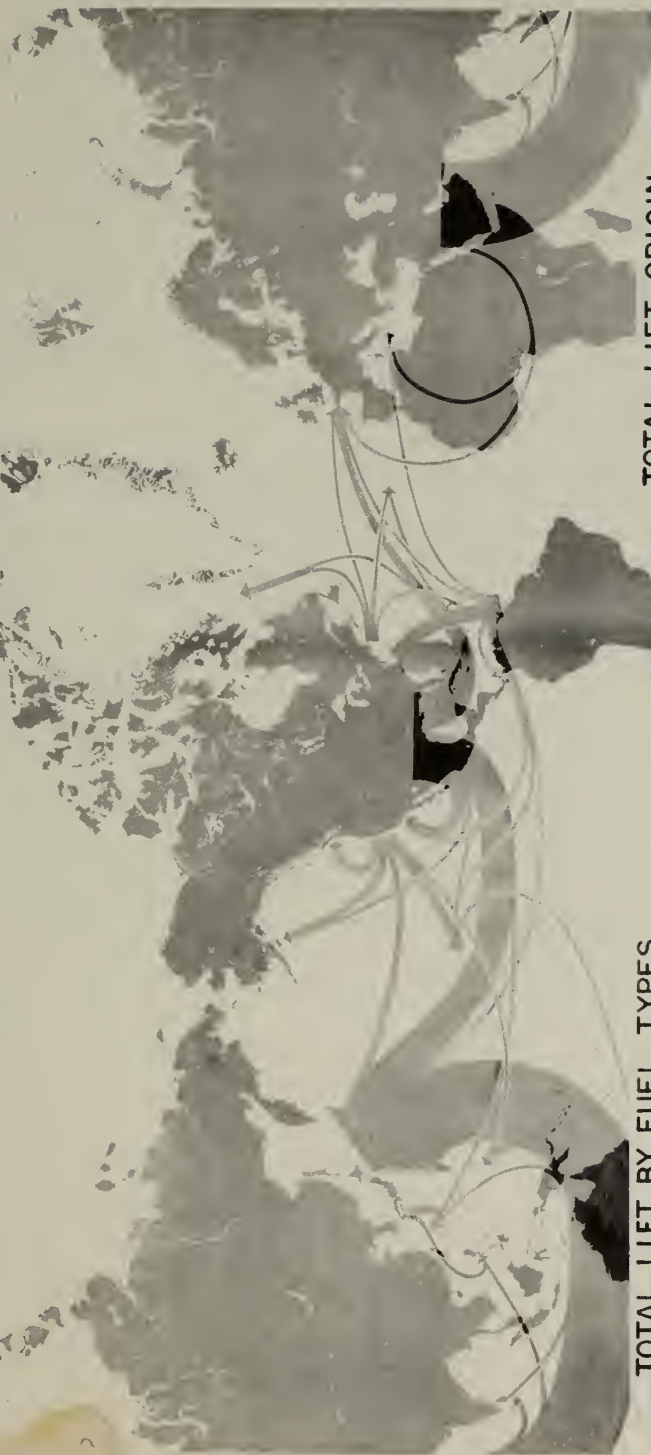
78%

OUTBOUND
3,266,189

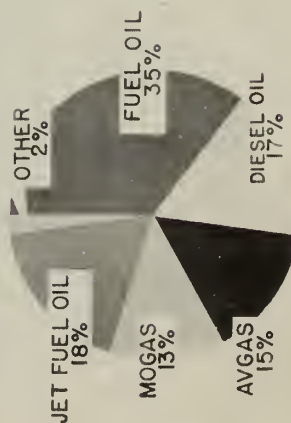
IN MEASUREMENT TONS

MSTS PETROLEUM TRAFFIC PETROLEUM LIFTED DURING FISCAL YEAR 1955

TOTAL LIFT 113,841,623 BBLs



TOTAL LIFT BY FUEL TYPES
14,558,021 L/TS



TOTAL LIFT ORIGIN
14,558,021 L/TS



term paper, are arctic operations, atomic tests, special construction, repatriation and United Nations troop lifts.

Passenger and Cargo Movements

Passenger traffic.--It can be seen from PLATE XII that MSTS lifted 1,652,199 passengers during fiscal year 1955. Most of these were troop movements which reached the figure of 1,378,738. Dependents transported totalled 173,223. Of the total passengers carried, only 24,252 were carried on a "space available" basis, which means transportation authorized after all space requirement travel assignments have been made and the space would otherwise be unused.

Dry cargo traffic.--PLATE XIII shows that 16,042,402 measurement tons of dry cargo were lifted by MSTS during fiscal year 1955. The Atlantic coast led with 3,266,189 tons against 2,855,734 tons for the Pacific, both outbound. Outbound traffic runs between 73% and 85% of the total traffic carried.

Petroleum traffic.--PLATE XIV depicts total petroleum traffic lifted in fiscal year 1955 at 113,841,623 barrels. Fuel oil, of course, accounted for most of this--35%. Diesel oil carried totalled 17%; avgas, 15%; jet fuel, 18%; mogas, 13%. Twenty-nine percent originated in the Persian Gulf area, 25% in the United States Gulf area, 20% in other U. S. areas, 14% in the Caribbean and 12% from other areas.

Operations in Financial Terms

Scope of the business.--In fiscal year 1955, MSTS did almost one-half million dollars of business, or to be exact, \$424,718,971.00 at an operating cost of \$422,946,378.00. MSTS, of course, does not attempt to generate profits, but rather, attempts to operate as close to actual cost as possible. Cargo

movements accounted for the largest percentage of revenue--51.2%. Passenger traffic followed with 27.3% and petroleum accounted for 21.5% of total business.

The United States Army dominated the picture from the standpoint of the shipper services with 57.0% of the business originated from that Service. The Air Force was second with 23.4%, and the Navy third with 15.7%. Other government agencies contributed \$10,965,358 of the total income collected, or 2.6%. PLATE XV illustrates scope of business from the point of view of revenues collected.

Average daily vessel operating costs.--PLATE XVI proves how expensive it is to operate a yacht, or any ship for that matter. Average operating costs illustrated apply to USNS (in-service) ships computed from 1954 figures. Average cost per day of a P-2 passenger ship totals \$8,500. The P-2 transport is a ship of 622 feet in length, 9,998 net tonnage, 10,025 deadweight tons and speed of 19 knots. It carries 393 officers and 4,960 men, or a total of 5,353 passengers.

A C-4 passenger ship comes a little cheaper at \$6,000 per diem. This is a troopship of 522 feet, 6,840 deadweight tonnage and a speed of 17 knots. It carries 228 officers, 3,595 men, total capacity, 3,823.

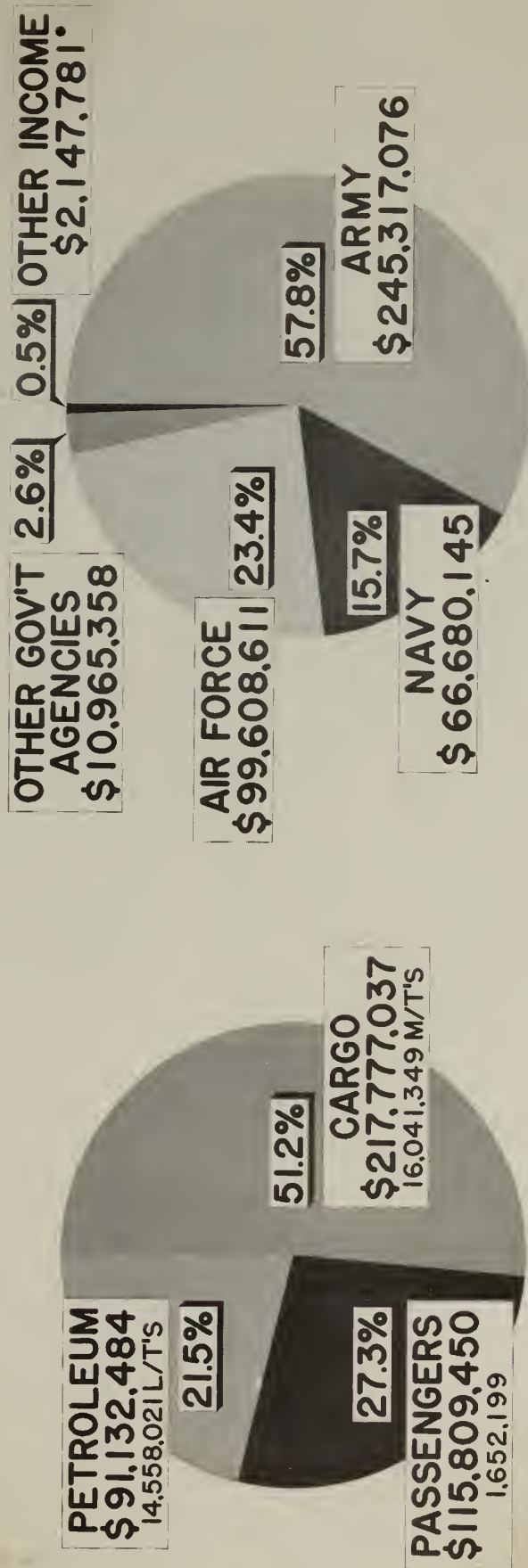
The C-2 cargo vessel is one of the most numerous of the C-types used for general cargo. It is 459 feet long, has a deadweight tonnage of 8,794 tons, speed of 15.5 knots, and a cruising range of 16,000 miles. Its total bale capacity in cubic feet is 536,828 and it "rents" for \$2,000 per day.

Traffic cost per mile.--The cost to lift cargo varied from \$4.91 per 1,000 M/T miles in 1951 down to \$3.81 in 1955. Measurement tons actually lifted in each of those two years varied from 20,138,179 in 1951 to 16,042,402 in 1955. The lowest cost per mile during these years was \$3.63 in 1953, based on a lift

SCOPE OF BUSINESS FY 1955

INCOME

\$ 424,718.971



● OTHER INCOME:	
SUBSISTENCE	\$ 1,774,316
SHIP BOARD SERVICES	373,465
TOTAL OTHER INCOME	\$2,147,781

OPERATING COST \$ 422,946.378

AVERAGE DAILY VESSEL OPERATING COSTS

USNS (IN SERVICE) SHIPS

1955

<u>TYPE</u>	<u>PASSENGER SHIPS</u>	<u>AVERAGE COST PER DAY</u>	<u>TYPE</u>	<u>CARGO SHIPS</u>	<u>AVERAGE COST PER DAY</u>
P-2		\$8,200	C-4		\$2,200
C-4		\$5,400	C-2 (REEFER)		\$2,400
C-3		\$5,400	VC-2		\$2,100
C-2		\$4,500	CI-M-AVI		\$1,500
CI-M-AVI		\$2,100	RI-M-AV3 (REEFER)		\$1,500

TANKERS (CONTRACT OPERATED)

T2-A1	\$2,100
T2-A2	\$2,500
T1-BT2	\$1,500

FIGURES SHOWN ABOVE EXCLUDE:

1. ACTIVATION COSTS.
2. INACTIVATION COSTS.
3. ACCIDENT & DAMAGE REPAIRS.
4. ALTERATIONS (CHARGEABLE TO BUSHIPS)
5. PAY & SUBSISTENCE OF MIL. DEPTS.
ASSIGNED TO TRANSPORTS.

of 28,783,012 M/T's. During the "peacetime" years of 1953, 1954, the cost per 1,000 M/T miles varied inversely as the measurement tons lifted, the lowest rate corresponding to the largest number of tons lifted.

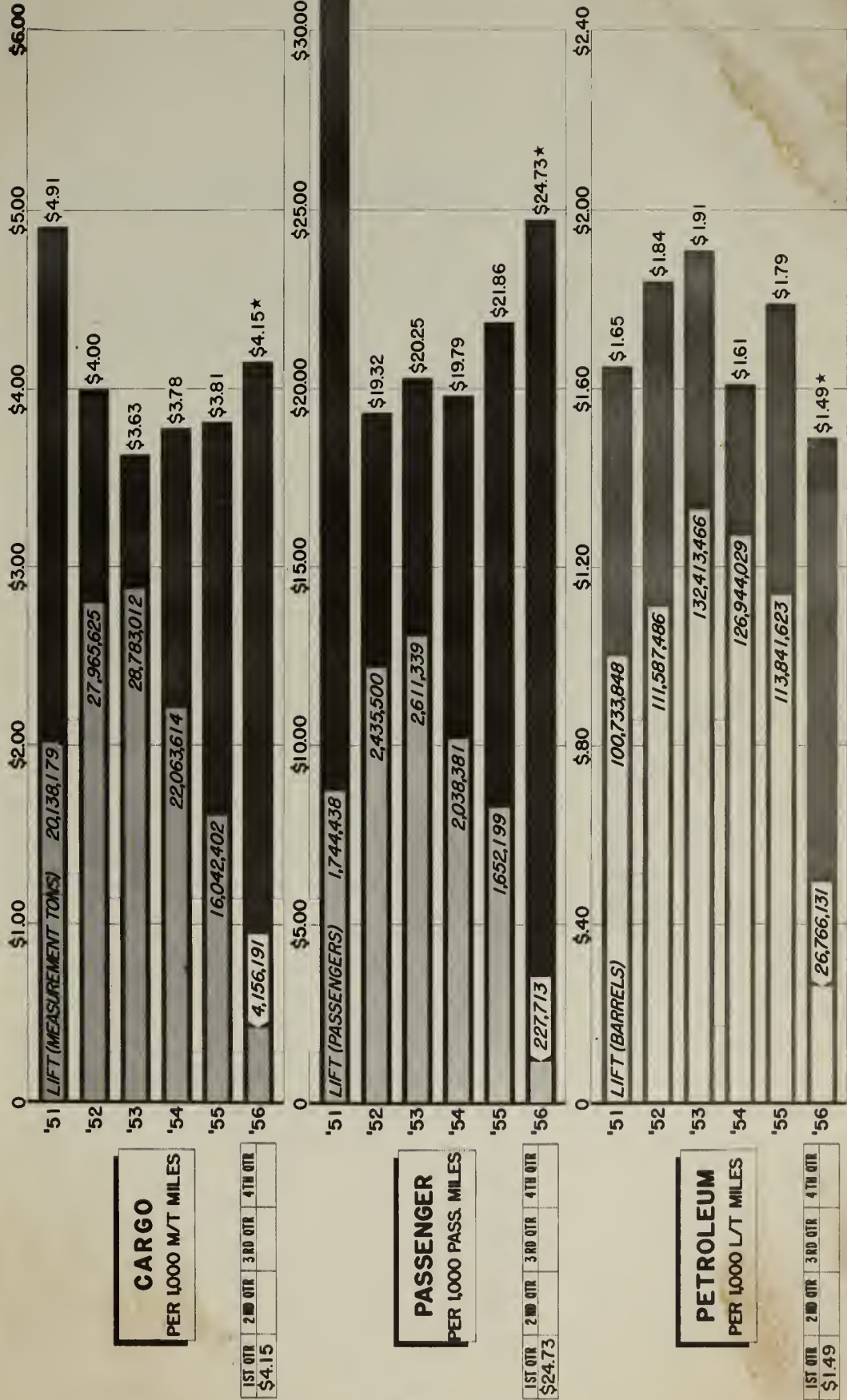
Excluding the year 1951 when costs were high coincident with the rapid expansion required by the Korean War, cost per 1,000 passenger miles remained relatively stable. In 1952 such a cost was \$19.32 and in 1954, \$21.86. Passengers lifted dropped from 2,435,500 in 1952 to 1,652,199 in 1955.

Petroleum carrying costs varied from \$1.65 per 1,000 L/T miles based on a lift of 100.7 million barrels in 1951 to \$1.79 based on 113.8 million barrels in 1955. These costs comparisons are interestingly portrayed on PLATE XVII.

MSTS tariff rates.--PLATE XVIII compares typical tariff rates as of 1 July 1955. Rates are promulgated annually as of 1 July based on estimated requirements and budgeted costs. The cargo rate per measurement ton depends on type of cargo--general, reefer, ammunition, special or aircraft. As will be seen from the Plate, reefer cargo under refrigeration is the most expensive, ranging from \$35.93 per M/T on the Atlantic-Europe route, to \$23.67 on the Northwest coast-East Alaska run. A cabin passenger will cost \$167.89 to Europe, while a troop passenger will cost only \$42.47. It will cost a shipper \$6.30 per long ton to ship a cargo of fuel oil from the Gulf Coast to Europe if the size of the lift is 14,000 tons or up, otherwise it costs \$6.93.

MSTS TRAFFIC COST PER MILE.....BY FISCAL YEAR

PLATE XVII



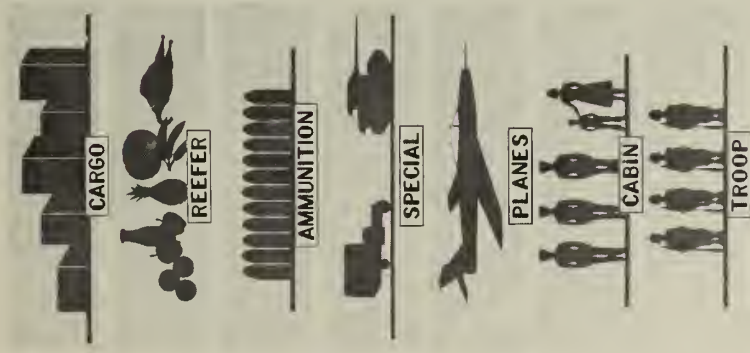
*1ST QTR FY '56

TYPICAL MSTs TARIFF RATES

1 JUL 1955

ATLANTIC COAST-EUROPE PACIFIC COAST-JAP/KOREA N.WEST COAST-L.A./ASIA

PLATE XVIII



CARGO
(PER MEASUREMENT TON)

PASSENGERS
(PER PASSENGER)

PETROLEUM
(PER LONG TON)

\$ 16.02	\$ 18.94	\$ 14.75
31.88	35.93	23.67
15.02	12.87*	8.61
22.67	24.58	14.75
11.40	12.36*	-
167.89	195.24	65.69
42.47	48.39	25.50

GULF COAST-EUROPE		GULF COAST-JAP/KOREA		PERS. GULF-JAP/KOREA	
BLACK	CLEAN	BLACK	CLEAN	BLACK	CLEAN
\$6.30	\$6.69	\$13.04	\$13.44	\$7.99	\$8.23
6.93	7.34	14.35	14.78	8.90	9.16

*CALIFORNIA COAST ONLY

CHAPTER V

THE INDUSTRIAL FUND

Principles and Procedures

Department of Defense Regulations

Establishment, authority and purpose.--Congress authorized the establishment of working capital funds in the amendments to the National Security Act, August 10, 1949, Section 405(a). The Secretary of Defense was authorized to establish a working capital fund for industrial and commercial type activities that provide common services within or among the departments and agencies of the Department of Defense as he may designate.¹

Pursuant to the Act of Congress cited above the Secretary of Defense promulgated "Regulations Covering the Operation of Working-Capital Funds for Industrial and Commercial-type Establishments (Industrial Funds)," on 13 July 1950. Each service was directed to establish an industrial fund for financing all such type activities within the department.

Each fund was to consist of unexpended cash balances, accounts receivable, stores (inventories on hand), all other current assets. Plant and equipment were expressly excluded from the fund. The Comptroller of the Department of Defense was authorized to issue implementing instructions and to authorize or approve specific projects to be financed through the industrial funds.

¹Navy Comptroller Manual, Navexos P-1000, Vol. 2, art. 022064.

The Industrial Fund method of financing was intended to: (1) provide a more effective means of controlling costs, (2) establish a flexible means for financing, budgeting and accounting, (3) encourage the creation of the buyer-seller relationship through the concept of interorders between agencies of the same department, (4) place budgeting and accounting on a more commercial basis, (5) provide a structure that will enhance the development of a performance-type budget, and (6) encourage cross servicing between the departments.²

Requirements for establishment of specific projects.--Either one of the military departments or the Comptroller of the Department of Defense may initiate a charter for a specific project believed to be the type best served by industrial fund financing. The charter must be approved by the Comptroller of the Department of Defense. The Comptroller of the department in which the recommended establishment is located must develop the accounting system, guided by the Comptroller of the Department of Defense who must approve it prior to its establishment.

Assets and liabilities of industrial funds.--The Act of 1949 provided that initial cash balances of the industrial funds should be provided from certain unused appropriations on the books of the Treasury, plus additional amounts if required to be appropriated, in order to provide an adequate capital structure. Administrative allocations to specific projects were provided for, to be termed "project cash accounts." Such allocations, however, must remain within the limitations of working capital established by the Bureau of the Budget. Cash receipts are deposited in the Treasury to the credit of the consolidated cash account, as a control account, and also recorded to the account of the project in such a manner that project cash account balances will equal

²Ibid.

the consolidated cash account balance.

Each department was authorized to capitalize inventories on hand but also within working capital limitations established by the Bureau of the Budget. In line with commercial practice, amounts billed pending reimbursement shall be termed "accounts receivable."

Each industrial establishment was directed to keep property accounting records for items of real estate, equipment and plant, but such assets were not to be capitalized as part of the industrial fund. Replacements of such capital items shall be financed by appropriated funds, except that tools, etc. that normally last for less than one year, and special items of machinery and equipment which are required for a specific job and are to be billed as such may be financed through the industrial fund. Cost of repairs of plant and equipment, however, are treated as costs of operations and are to be financed through the fund. Reserves, too, may be set up for limited accumulation of funds to replace or repair plant or equipment damaged or destroyed by fire or other hazard.

Initial liabilities to be assumed under the funds were generally to be confined to accrued annual leave, and unliquidated obligations for goods and services received by the establishment.

The Act specifically prohibited the crediting of any appropriation with amounts of inventory and working capital funds capitalized. Certain exceptions were made, however, when unfairness to activities financed by current appropriations could be shown.

The amounts of cash and investment in materials and supplies to be initially allocated under the industrial fund were to be limited to cash requirements represented by estimates of costs incurred under normal operations prior to the time that reimbursements may be obtained, and the normal amount of

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materials and supplies needed for the same period.

Orders for work to be performed.--The project order is used as the basis for ordering work done, billing and for obligation of the appropriations of the ordering agency, in the same manner as a purchase order or contract is used in an outside industrial concern. For recurring services a single authorizing document may be used for the entire fiscal year. Work also may be performed by requisition for other government agencies and foreign governments when authorized by law and by charter.

Reimbursements for work performed and for other costs.--Each activity operating under an industrial fund shall be reimbursed regularly for all costs properly chargeable, so that the working capital of the fund may be maintained. No working-fund advances are authorized in connection with work performed for an agency within the Department of Defense, but such advances are authorized from outside agencies.

Billing shall be on the basis of completed jobs, billed daily on a job basis, weekly or monthly for groups of jobs. For long periods of time, progress payments may be arranged in the same manner as such payments are provided for under contracts with outside parties.

Reimbursement is on the basis of actual costs incurred, excluding military pay and allowances, depreciation, and other elements of statistical costs. Predetermined rates based upon estimated costs, such as the tariff rates promulgated annually by MSTs, are also authorized. However, work performed for those outside of the Department of Defense are charged the full cost, including military pay, depreciation, etc. The excess of the amounts billed over actual costs are deposited in the Miscellaneous Receipts of the Treasury.

Reimbursements are made procedurally through the use of Form 1080.

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The following costs are expressly excluded from costs of operations:

(1) costs of additions to plant and equipment, (2) costs of removing retired items of plant and equipment, (3) costs of maintenance of idle plant and equipment, and (4) costs of operation of activities physically located within an activity but not participating in the production of the goods and services rendered. These latter costs are to be paid through allotments of regular appropriations, either directly or by reimbursement to the industrial fund.

Cost accounting methods.--Job, or production, cost accounting methods shall be used in collecting and determining costs whenever appropriate. When predetermined or estimated costs are used as a basis for billing, actual costs of work performed may be determined by classes of work for the purpose of comparison of actual costs against predetermined costs billed to agencies. MSTs uses, for example, three basic ship classes--passenger, cargo and petroleum. Adjustments of predetermined charges to actual charges is required from time to time, with the objective that in the long run total reimbursement will closely approximate actual costs.

Each activity operating under an industrial fund will have a cost accounting system built to its own specifications. It shall, however, observe the accrual basis of accounting and employ the double entry method of bookkeeping.

Costs shall not include certain excluded items for which expenditures are not made by the performing activity. Examples are: military pay and allowances, the share of the government's contribution to the Civil Service Retirement System, costs of procurement, storage, issue of materials and supplies incurred in the basic Supply System, and depreciation. These costs, however, will be recorded statistically so that the approximate full cost of all work performed may be determined. The objective is that of reducing the amount of

statistical costs to a minimum by taking all steps feasible to require each industrial fund activity to pay all costs.

Materials and supplies used from stock shall be priced in accordance with usual procedures established by the issuing activity and such issues shall be reimbursed for the cost so determined. No such materials shall be issued free of charge to any job, except such items as are generally known by the term "Government furnished materials." Whenever appropriate, direct and indirect materials and supplies shall be costed separately in the accounts and indirect costs shall be treated as overhead costs.

Civilian labor and salaries are charged at actual costs. Direct labor charges shall include overtime, annual and sick leave. Charges for indirect labor, including administrative salaries, are treated as overhead and may also include overtime, annual and sick leave. In general, overhead costs applicable to idle plant or facilities will be separately determined and reimbursed from regular appropriations. Overhead rates will be established, generally, so that in the long run no loss to the industrial fund will be sustained.

Obligations and expenditures.--Authority to incur obligations is vested in local management. All documents supporting expenditures shall be processed within the activity. Statutory limitations or restrictions on expenditures applicable to appropriations also apply to industrial fund operations. Expenditures of each industrial type activity is limited by (1) authorized project orders to which they may be charged, (in the case of MTS these would be requirements submitted annually by each of the shipper services, as an approximation). (2) expense budgets for non-operating expenses, and (3) procurement budgets for materials and supplies purchased for stock.

Budgets and budgetary control.--Agencies ordering work performed by an industrial-type activity shall budget annually for the estimated cost of the

orders to be placed. Likewise, each industrial-type activity shall budget for the estimated cost of idle plant and equipment and additions to such plant and equipment. Also, costs of operating any non-operating activity under its management, such as a supply depot, shall be budgeted for by the activity having management control of the activity.

Each activity operating under the industrial fund shall prepare a commercial-type budget annually, covering its operating costs, and shall review such budget at least quarterly for revisions if necessary.

Budgets for procurement of materials and supplies shall be prepared and used administratively for procurement control through the use of allotments in the manner of procurement under appropriations.

Each agency ordering work performed from an industrial activity shall record obligations when the order is placed or when the order is performed, in the case of recurring services of a minor nature. Agencies having management control of an industrial-type activity will make allotments to such an activity to serve as a basis for additions to capital assets, etc.

The Bureau of the Budget approves annually a limitation on the amount of working capital available for operations. Each industrial fund activity must submit through the Secretary of Defense (Comptroller) not later than 15 June each year, an estimated consolidated balance sheet and operating statement for the ensuing fiscal year, supported by appropriate financial statements. These statements must be based on the best available information at the time statements are prepared. Working capital in excess of the established limitation is placed in reserve.

Reporting.--Monthly summary operating reports are prepared by each establishment under the industrial fund. These reports include a balance sheet

and operating statement of the commercial type, together with appropriate schedules. Actual operating costs shall be compared with budgeted costs. Copies of these statements are submitted to the Office of the Comptroller of the Department of Defense and to the Bureau of the Budget.

Section 405(c) of the National Security Act, as amended, requires each military department to submit an annual report on the operations of its industrial fund to the President and the Congress.

Auditing.--The Comptroller of each department shall require audits of industrial fund activities through the internal audit division of that department.

The MSTS Charter

General.--Before approval of its Charter, MSTS operations were financed through advances from the annual appropriations of the Army, Navy and Air Force. MSTS was therefore subject to the fiscal limitations and reporting procedures imposed by the annual appropriation structure. The "Charter for Operation of Military Sea Transportation Service Under Navy Industrial Fund" was approved by the Assistant Secretary of Defense (Comptroller), on May 7, 1951, and authorized MSTS to finance its operations beginning 1 July 1951 under the Navy Industrial Fund, in accordance with Section 405 of the National Defense Act of 1947, as amended, and Department of Defense Regulations dated 13 July 1950. The first five sections of the Charter repeated the mission, functions and responsibilities which had been prescribed in the basic Directive of the Secretary of Defense dated 2 August 1949.

Financing.--MSTS is authorized to bill each agency to whom services are rendered at least monthly. Tariff rates shall be determined in accordance with the principles set forth in the Department of Defense Regulations, except that

and numerous instances of the same kind, together with a
 number of other cases, which have been reported to the
 Committee of the House of Representatives, and which are
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 subject of the same kind, which is now before the
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The Committee on the subject of the same kind, which
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for the time being no surcharges will be made for statistical costs on services billed to agencies outside the Department of Defense.

MSTS is authorized to finance through the Industrial Fund costs of performing services pursuant to its mission, such as civilian payrolls, traveling expenses, materials and supplies, charter hire, maintenance and repair, and alterations to ships and other facilities, activation and inactivation of ships assigned, spare parts, ships equipage and replacements of furniture and equipment required ashore, certain damage claims, and such expenses usually classified as "operating expenses."

MSTS is not authorized to finance under the Industrial Fund costs of new construction and conversion of ships, pay and allowances of military personnel, proration of overhead of Bureau or Officers of the Department of the Navy, expenses for official representation (entertainment), military characteristics of ships, such as armament and amphibious gear, or battle damage repairs on MSTS ships.

Contracts, collections and accounting system.--MSTS may enter into contracts as may be necessary in the interests of economy for materials and services, provided that cash requirements to liquidate such contracts plus other commitments and liabilities will not exceed the total of available cash plus anticipated receipts for the same period, and also provided that such contracts are not for construction or acquisition of capital assets.

MSTS is authorized to credit the Navy Industrial Fund with collections representing its costs and any other receipts authorized by law.

MSTS may employ such financial and accounting procedures as best serve its needs in the effective handling of transactions and as a guide to good management and in rendering reports on its financial status and the results of

its cost of operations as may be prescribed by the Secretary of Defense and Secretary of the Navy. Its system in general shall be the double-entry commercial-type, maintained on an accrual basis.

Working capital.--Working capital to finance MSTS was provided as follows: (1) A cash allocation of \$100,000,000 from the Navy Industrial Fund to a project cash account of MSTS, (2) capitalization of inventories of materials, supplies, stores, fuel oil, ashore and afloat on hand as of the date of commencement of operations under the Fund.

Two liabilities were recognized--annual leave accrued to civilian employees estimated at \$5,400,000, and the amount of indemnity self-insurance estimated at \$4,000,000 pertaining to Maritime Administration ships time chartered to MSTS at the commencement of operations.

Exception to the Regulations approved 13 July 1950.--MSTS was authorized to deviate from paragraphs 5(j) and 7(g) in that acquisition of ships' equipage and relatively minor items of furniture and equipage required in its shore activities may be charged to expense, and from paragraph 7(e)(2) in that bills for services performed for other government departments and instrumentalities need not include proration of military pay and allowances, depreciation and other elements of statistical costs.

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CHAPTER VI

OFFICE OF THE COMPTROLLER

Headquarters, Washington

Functions and Responsibilities

The Comptroller.--The Comptroller's "Bible" has the following to say about the responsibilities of the Comptroller, COMSTS:

Comptroller. The National Security Act of 1947, as amended, provides in part (Section 402(b)) that:

'Subject to the authority of the respective departmental Secretaries, the comptrollers of the military departments shall be responsible for all budgeting, accounting, progress and statistical reporting, and internal auditing in their respective departments and for the administrative organization structure and managerial procedures relating thereto.'

The Comptroller, COMSTS, is charged with similar responsibilities regarding the Military Sea Transportation Service organization. Although the Comptroller, COMSTS, reports directly to COMSTS and is subject to his orders on all matters, the Comptroller, Department of the Navy exercises technical supervision over all COMETS Comptroller functions. The Comptroller, COMSTS, exercises technical supervision over Comptrollers attached to MSTS subordinate commands.¹

The Comptroller's mission is to insure proper performance of the functions relating to budgeting, accounting, auditing, disbursing, statistics and tariffs throughout the command.

His responsibilities pertain to the following: (1) to advise COMSTS and key members of his staff on matters relating to the MSTS mission, and to business administration, (2) to establish policies and procedures relating to

¹Navy Industrial Fund Handbook for Military Sea Transportation Service, Office of the Comptroller, Department of the Navy, P-1280, 0101.

comptrollership functions, (3) to exercise supervision over organization and operating procedures in the Office of the Comptroller, and technical supervision over comptroller offices at MSTS subordinate commands, (4) to maintain necessary liaison with comparable functional components of the Department of Defense, Department of the Navy and other government agencies in comptroller matters, (5) to maintain accounting records and system prescribed in accordance with the Charter of the Comptroller of the Department of Defense, and policies established in SecNav Instruction 5400.4 of 18 November 1953, (6) to collaborate with the ACOS (Personnel and Administration) in the preparation of recommendations and the review of proposed action on requests for increases in current civilian personnel allowances, to insure best possible utilization of MSTS manpower within budgetary limitations, and (7) to submit required financial, accounting, cost and statistical reports, and appropriate analyses and evaluation of such data for management purposes for guidance in planning future operations and as historical records.

The Comptroller's organization.--In addition to a Deputy Comptroller, who in MSTS is a civilian to assure continuity and provide expert technical advice, the Comptroller has five Division Directors reporting directly to him, and several Assistants to the Comptroller who are Navy officers. The latter are assigned to special tasks and various administrative matters and do not, except under special circumstances, engage in operating details. For example, one of the special assistants studied the tariff structure for eight months, which resulted in extensive improvements. At present there are three such special assistants.

The five divisions, budget, accounting, statistics and analysis, disbursing and internal control are operationally separate, with little dove-

tailing between them. Each of these divisions maintains direct contact with its counterpart in subordinate commands to facilitate conduct of operating details--policy matters explicitly being avoided.

The Deputy Comptroller.--This official acts in the capacity of executive officer, actively supervising the work in the Office of the Comptroller. He consults with Division Directors, assigns and coordinates the work, reviews correspondence and reports to assure accuracy and consistency with existing policy, and reviews legislation from higher authority to determine effect on MSTs, advising the Comptroller as to action required.

Director, Budget Division.--The Budget Division coordinates, reviews and prepares the budget and establishes MSTs tariff rates. The Director formulates the premises on which MSTs planning and operating budgets are based. He prepares the format, develops instructions to govern assembly, preparation and submission of data necessary for preparation of the MSTs budget, based on operating plans, traffic forecasts, statistical data and operating cost estimates. He prepares the consolidated MSTs planning and operating budgets and recommends to the Comptroller amounts to be included. He establishes MSTs tariff rates based on the approved budget. He prepares the periodic consolidated budget report and explains significant variations from amounts budgeted, advising the Comptroller and cognizant personnel of areas where plans are not being met, recommending appropriate action. He also makes periodic analyses to determine sufficiency of MSTs working capital in light of budgeted operations, advising the Comptroller of need for additional working capital.

The budget serves as a road map, a plan and a guide. Comparisons are made monthly for variances to enable operations to get back on the track where deviations have occurred. PLATE XIX illustrates the Planning budget cycle in

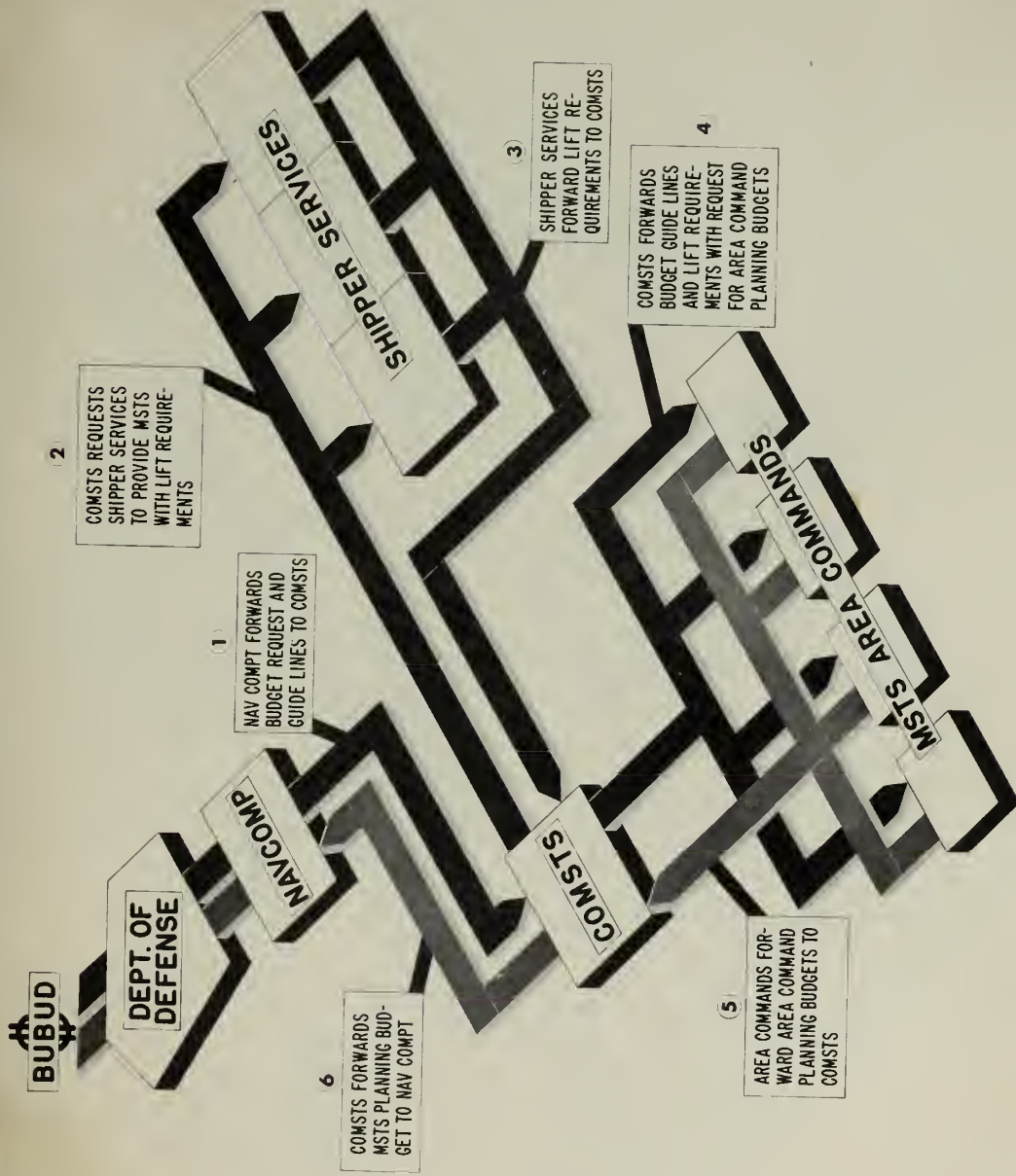
general terms. It is developed early in the spring by requests to the shipper services for requirements which must then be translated into costs based on requirements. PLATE XX illustrates the operating budget cycle which reflects last minute revisions to the planning budget which has been developed earlier. PLATE XXI depicts the steps necessary in costing the budget: lift requirements plus route, origin and destination translates into ships required and operating costs which, in turn, equal the budget. Administratively, budgets may be transferred between commands as necessary to budget workloads on the basis of ship costs and days left in the year for operations.

Director, Accounting Division.--This officer's mission is that of advising on, formulating and supervising effective accounting policies and procedures. He prepares, processes and records all accounting transactions for the Office of COMSTS, maintains general accounting records and prepares financial reports for the entire command. He heads two branches, the General Accounting Branch and the Payables Branch. The former prepares and processes all accounting transactions, maintains general accounting records and prepares financial reports; the latter verifies and vouchers for payment all invoices.

MSTS operates under a decentralized accounting system. Each Area Command prepares and submits monthly balance sheets and operating statements to COMSTS for consolidation into balance sheets and operating statements for the entire command.

Director, Statistics and Analysis Division.--This officer supervises the statistical reporting system and cost analyses for MSTS. He has three Branches reporting to him--an Analysis Branch which prepares statistical studies and analyses necessary for supporting interpretations and evaluations, a Statistics Branch which directs operations of the statistical reporting systems for the

PLANNING BUDGET CYCLE



OPERATING BUDGET CYCLE

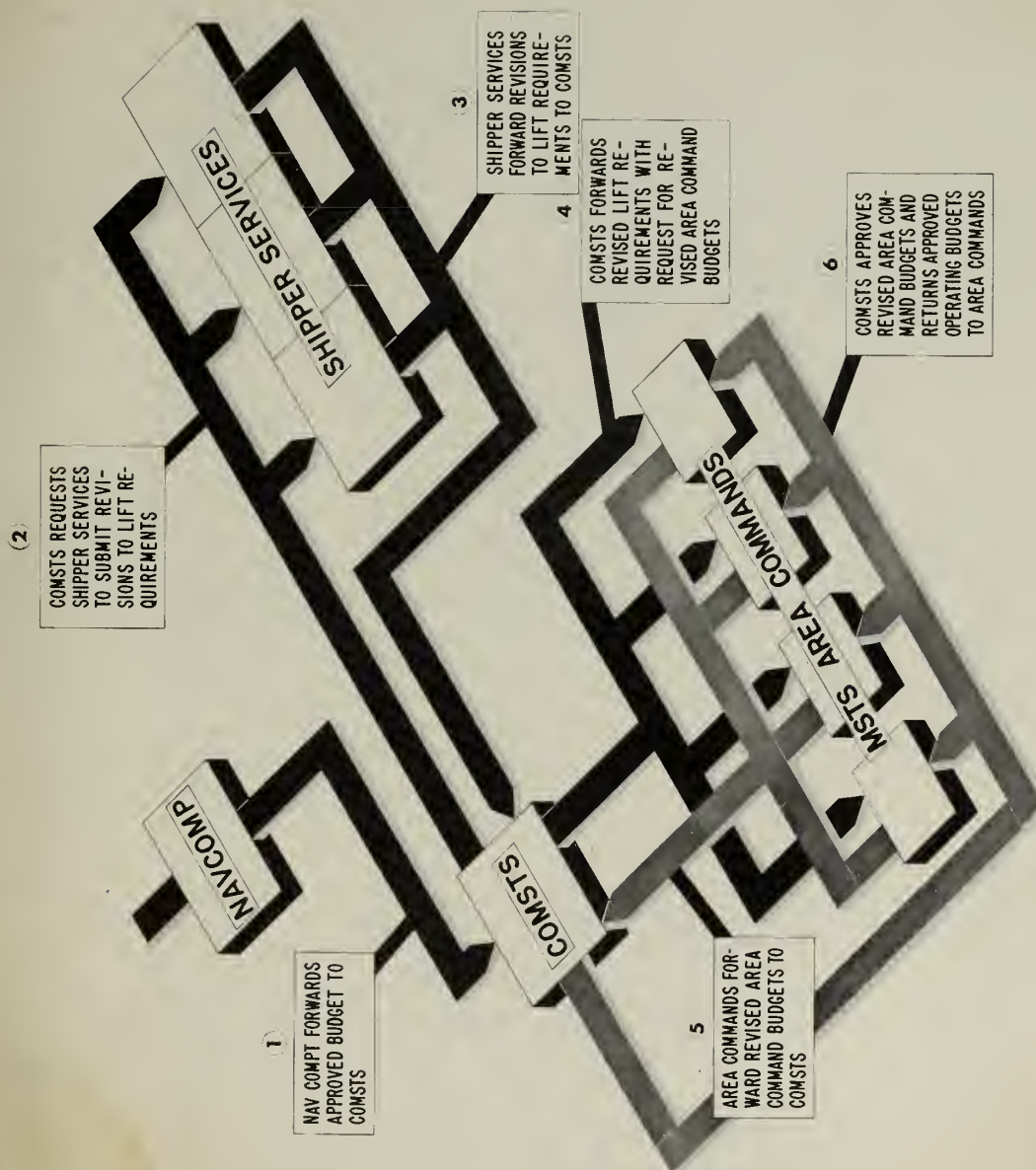
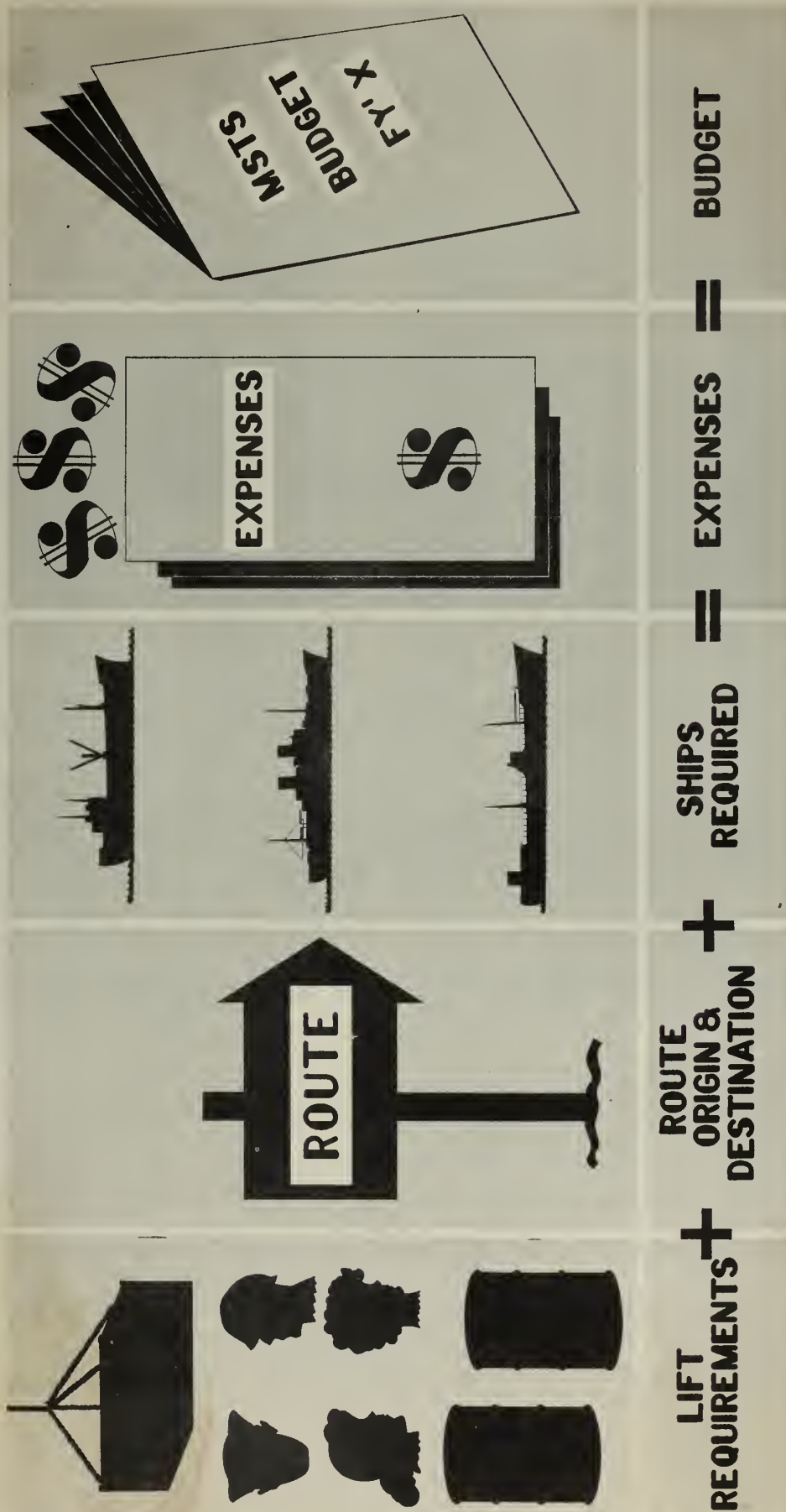


DIAGRAM OF MAJOR BASIC ELEMENTS OF COST

A BUDGET IS BASED ON EXPENSES - "WHAT IS IT GOING TO COST?"
THE FACTORS NECESSARY TO FIND THE COSTS FOR MSTs ARE:



Office, COMSTS, and the Tabulating Branch which processes machine records.

PLATES XXII through XV illustrate the type of statistical graphs and charts which are prepared for COMSTS.

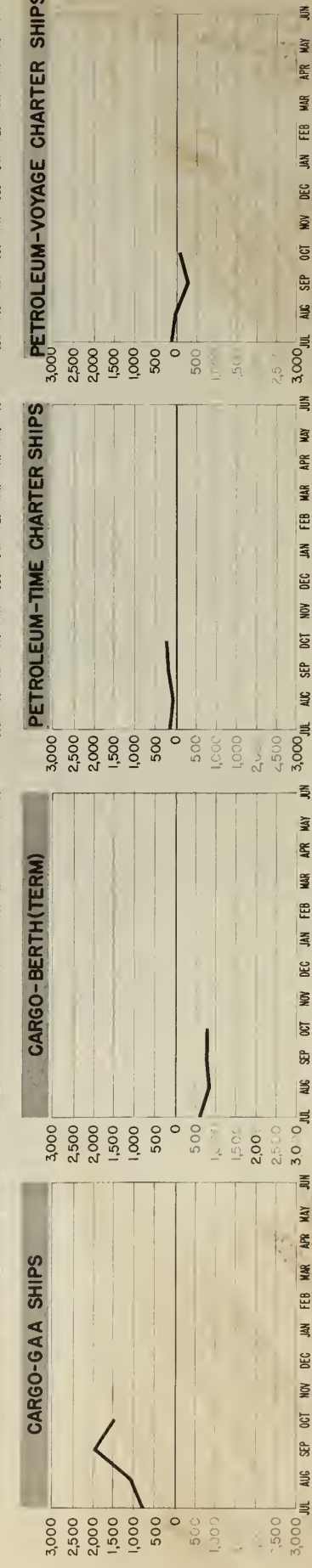
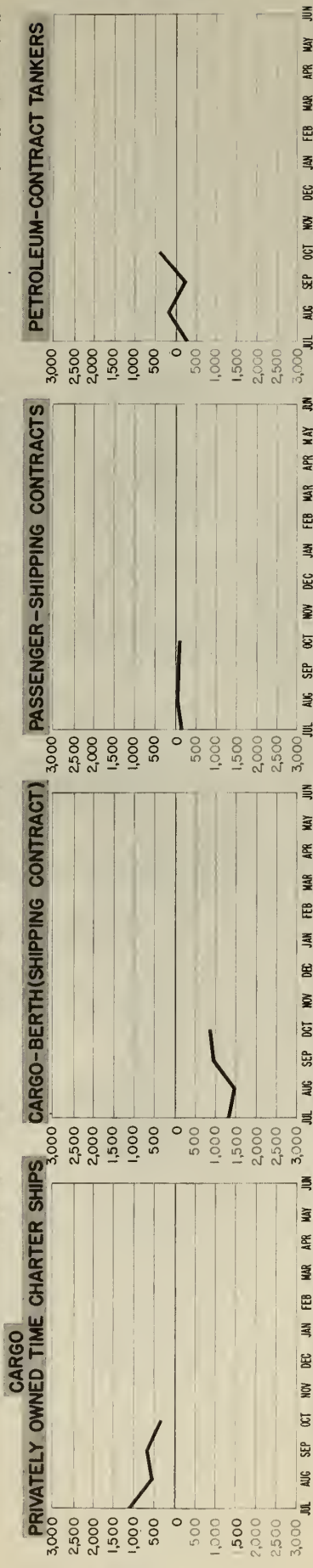
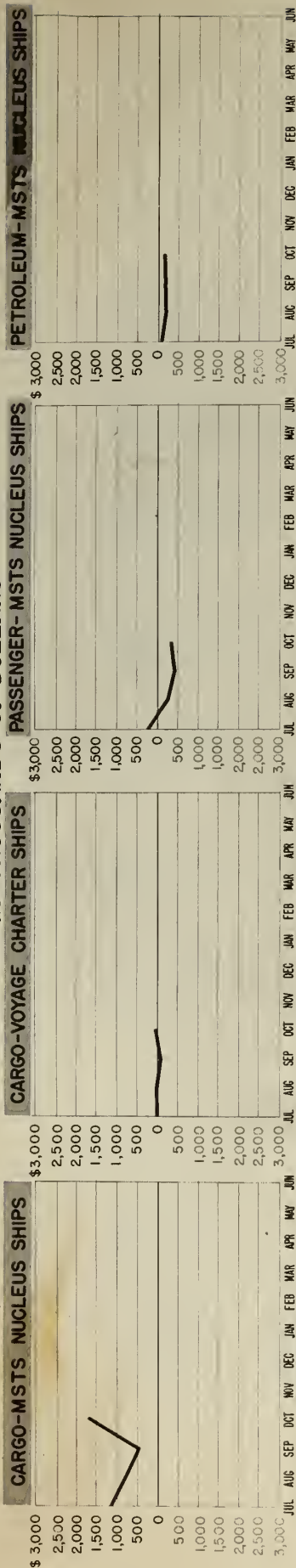
Director, Disbursing Division.--This office serves as the Disbursing Officer for MSTs in Washington, D. C. He is responsible for formulating, advising on and insuring proper implementation of disbursing policies and procedures, and for coordinating and recommending changes in existing instructions pertaining to disbursing of MSTs funds ashore and afloat. He has an Assistant Director, a Cash Records Branch and a Public Voucher Branch to assist him.

Internal Control Division.--This division develops management controls and conducts audits at the Office of COMSTS and at subordinate commands to insure conformance with prescribed policies and procedures relating to procurement, budgeting, accounting, statistics and analysis, disbursing and reporting. Specifically, this division, now consisting of four civilians, reviews controls at the various levels of management for adequacy, designs internal controls when appropriate and makes recommendations to the Comptroller for improvements. He submits audit reports to the Comptroller indicating extent of verification made, deficiencies disclosed, corrective action to be taken and recommendations as to improvements.

This division is truly the eyes and ears of COMSTS, not only at Headquarters but also to the extent permitted by available personnel in the field command. He is the coordinator of the Comptroller's Office as far as coordination of procedures and changes to the Handbook are concerned. He checks figures represented on command reports to ascertain that they are truly representative of the facts. The Navy Audit Office also conducts such reviews.

PROFIT OR LOSS.....F.Y1956

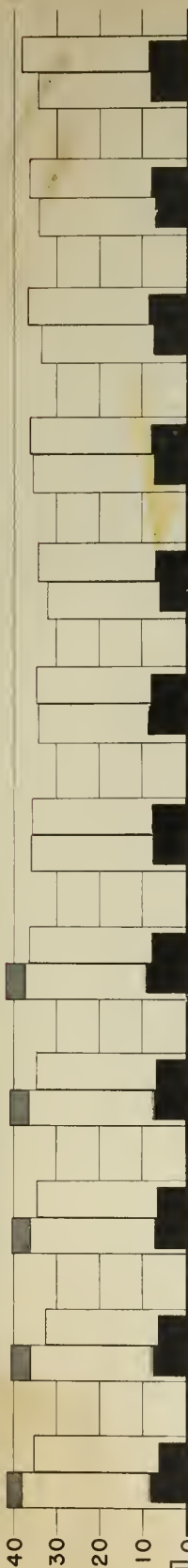
IN THOUSANDS OF DOLLARS



INCOME, EXPENSES - GAINS OR (LOSSES) BY SERVICE... FY 1955

INCOME BASED ON PUBLISHED MSTS TARIFF RATES
INCOME AFTER APPLICATION OF RATE ADJUSTMENTS
AS DIRECTED BY ASST SEC DEF.

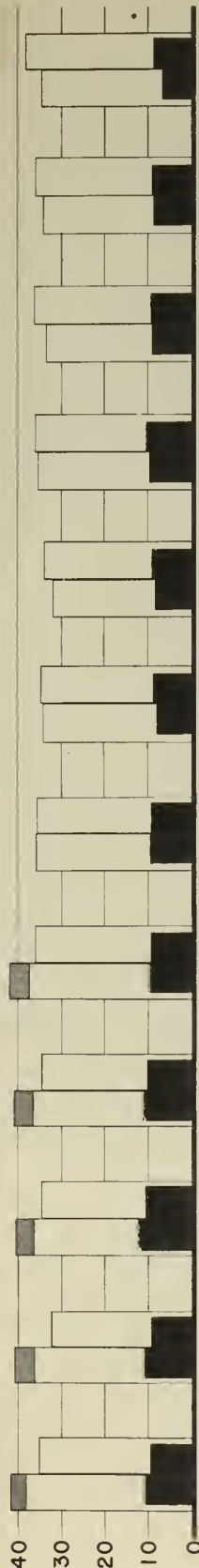
MILLIONS OF DOLLARS
\$50



PETROLEUM

	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN
INCOME	\$ 8,243,609	\$ 7,442,789	\$ 7,052,623	\$ 7,187,012	\$ 9,052,851	\$ 7,609,822	\$ 8,006,201	\$ 6,075,483	\$ 7,134,206	\$ 7,264,025	\$ 7,213,704	\$ 8,050,358
EXPENSES	6,409,391	6,297,182	6,534,886	7,070,115	8,085,705	7,738,284	8,234,220	7,089,713	7,850,680	8,520,740	7,571,900	8,519,866
GAINS/(LOSSES)	1,834,218	1,145,607	517,737	116,897	967,146	(129,662)	571,981	(1,014,230)	(724,474)	(1,256,715)	(358,196)	(469,508)

\$50



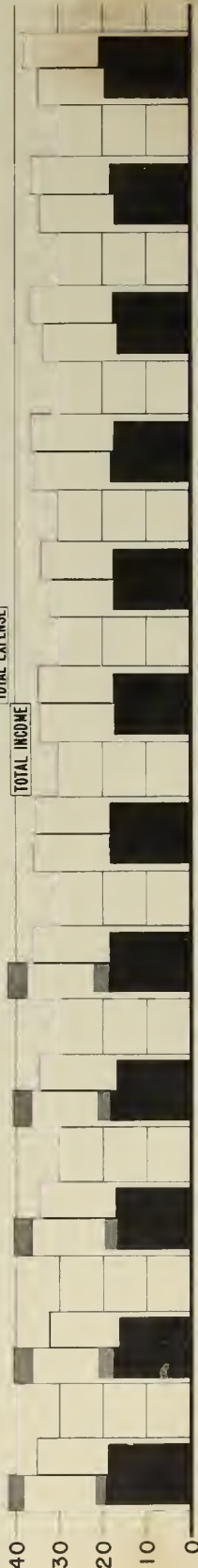
PASSENGER

	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN
INCOME	\$10,859,425	\$10,925,183	\$12,302,767	\$10,946,647	\$ 9,569,479	\$ 9,710,276	\$ 7,905,721	\$ 8,324,351	\$ 9,728,897	\$ 9,394,384	\$ 9,112,331	\$ 6,856,525
EXPENSES	9,752,213	9,781,261	10,852,728	10,204,653	9,507,396	9,462,914	8,927,043	9,112,368	10,223,755	9,440,556	9,418,486	8,836,364
GAINS/(LOSSES)	907,212	1,143,922	1,450,039	741,994	62,083	247,362	(921,322)	(788,017)	(494,858)	(46,172)	(306,155)	(1,980,439)

\$50

TOTAL EXPENSE

TOTAL INCOME



CARGO

	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN
INCOME	\$19,537,833	\$17,813,974	\$16,914,889	\$18,503,268	\$18,968,656	\$18,623,321	\$17,466,369	\$17,621,323	\$18,600,303	\$16,833,986	\$17,479,604	\$19,413,511
EXPENSES	18,989,207	16,383,803	17,391,402	17,162,800	18,582,755	18,554,127	17,526,265	17,725,203	17,488,689	17,960,848	18,308,993	20,912,464
GAINS/(LOSSES)	548,626	1,430,171	(476,513)	1,340,468	385,901	69,194	(59,896)	(103,880)	1,111,614	(1,134,862)	(1,429,389)	(1,498,954)

TOTAL

	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN
INCOME	\$38,440,867	\$36,181,946	\$36,270,279	\$36,636,927	\$37,590,966	\$35,943,219	\$34,178,291	\$32,021,157	\$35,463,406	\$33,492,394	\$33,805,639	\$34,320,395
EXPENSES	35,150,811	32,462,246	34,779,016	34,437,568	36,175,856	35,756,325	34,587,528	33,927,285	35,571,124	35,929,943	35,899,379	38,269,295
GAINS/(LOSSES)	3,290,056	3,719,700	1,491,263	2,199,359	1,415,130	186,894	(409,237)	(1,906,128)	(107,718)	(2,437,549)	(2,093,740)	(3,948,900)

LIABILITIES & CORPUS - FLUCTUATIONS FY 1955

(000) OMITTED

140,000

120,000

CORPUS

100,000

80,000

ACCRUALS

60,000

40,000

RESERVES

20,000

PAYABLES

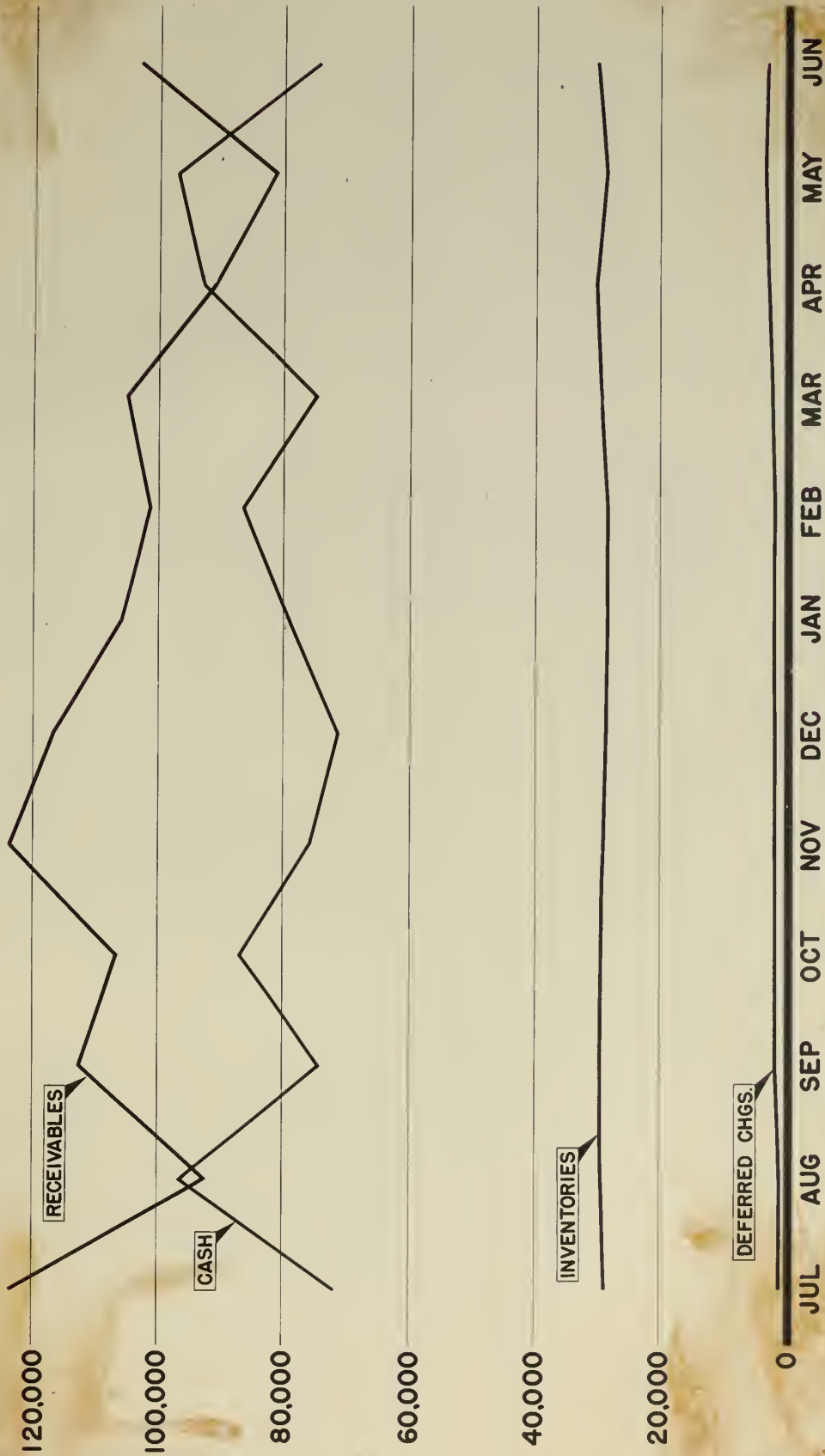
DEFERRED INCOME

0

JUL AUG SEP OCT NOV DEC JAN FEB MAR APR MAY JUN

ASSETS - FLUCTUATIONS FY 1955

(000) OMITTED
\$ 140,000



Area Commands

Functions and Responsibilities

General.-- In conformance with the decentralized nature of the MSTs accounting system, the Comptroller's Office in the Area Commands is patterned very closely after that of the Comptroller's Office in the Office of the Commander, MSTs. In the Commands the tabulating function has the status of a Division because of greater volume of work performed. At Headquarters, Washington, most of the tabulating work is summarization of much of the work initiated by field activities.

The Area Commands also maintain a N/A Fund Division responsible for receipt and disbursement of cash of the Welfare and Recreation Fund and preparation of reports of the Fund. Headquarters has no such Fund.

CHAPTER VII

MSTS OPERATION UNDER THE NAVY INDUSTRIAL FUND

Contributions to Better Management

Budgeting and Accounting

Accounting.--Emphasis is placed on management requirements for information and control instead of being premised upon legal requirements of the appropriation accounting system which tends to emphasize funding requirements of allotment reports, expenditures and obligations. As has already been noted, the accounting system is "custom-built" just for MSTS, patterned after its peculiar needs rather than being forced into a general mold. This system gives the Commander much more latitude in determining the manner in which he will utilize funds in providing sea transportation to his customers, the shipper services. Operating decisions may be based solely on the requirements of the Shipper Services rather than upon over-all requirements of the Navy.

The appropriation accounting system required some eighteen months of advance planning prior to beginning of the fiscal year for which the funds are appropriated, and twelve months more before the period for which the funds are appropriated has terminated. In the shipping business it would be impossible to predict with an acceptable degree of accuracy that far ahead. Fluctuations in workload are substantial. MSTS now makes its plans one quarter in advance, but a firm commitment for shipping space is not made until forty-five days in

advance, that is, shipping requirements for the month of July are firmed on 15 May. Even after a firm commitment, no charge is made to the shipper if no costs have actually been incurred. Industrial Fund financing makes this flexibility feasible.

Under Industrial Fund financing there is no year-end incentive to rush to expend unobligated balances of appropriated monies. Expenditures are predicted upon operational requirements, not the calendar.

The performance budget is predicted on the concept that a function or activity, such as a naval air station, or "Medical Care, Navy" should be financed by one appropriation instead of many in order that costs for the activity can be systematically collected, reported and evaluated. MSTS accounting permits just such a system. All costs of operations, with but few exceptions already noted--pay and allowances for instance--are accumulated in MSTS cost reports. The full cost of operating MSTS is available in its financial statements.

Better control of cash and simplified record keeping are gained by the procedure authorizing MSTS Disbursing Officer to pay bills and payrolls.

Advantages are also gained through use of the principles of accrual accounting--the system of accounting used almost universally in private business, but not in government. Government relies upon the obligation-expenditure, or cash receipt-disbursement system, whereas accrual accounting shows expenses incurred and income earned for a given period, even though such revenues or expenses may not actually have been received or disbursed during that period. In other words, revenues are matched with expenditures during a given time period. This information gives management accurate cost data and income for the period that goods or services were provided. Accurate cost comparisons

may therefore be made from period to period.

Budgeting.--Commercial type budgeting is practiced by MSTs. Forecasts of requirements for the year are prepared based upon estimates submitted by the various shipper services. The area commands are then asked to cost these requirements. Tariff rates are based on this costing and the Commands are notified of the budget on which they will operate for one year. The Operations Division converts requirements to ships, by types, by areas to arrive at the "Operating Force Plan."

Operating inflexibility is avoided by the budgeting device known as the flexible or variable budget. The approved budget of an Area Command is geared to the size of the job to be performed. If this should increase--if volume is greater than budgeted, the budget is increased proportionately. Hence, it cannot be said that the budget controls expenditures entirely. Volume is also a controlling factor. This flexibility, this responsiveness to operating realities, cannot readily be achieved under the allotment system where the amounts available for expenditures are rigidly controlled and difficult to alter.

Cost consciousness.--The MSTs system of budgeting and accounting creates cost consciousness not only on the part of those responsible for operations in MSTs, but also in the Shipper Services. They watch tariff rates because an increase in rates means less cargo that can be moved for the same cost. Their budgets do not go as far. Not only are the Shipper Services critical of MSTs operational decisions which result in increased costs, but they themselves are compelled to exercise a greater degree of self restraint in their own actions which might cause unnecessary expense to MSTs. Hence, there exists a positive incentive for all participants involved in sea transportation to conduct their

business on the basis of minimum costs--another positive advantage wrung from the Industrial Fund mode of operation.

Financial Statements and Reports

General.-- Financial statements and reports of the type familiar to every business man are prepared monthly in the office of the Comptroller, NSTS, and also in the area commands. The reports prepared at Headquarters, NSTS, are consolidated and represent operations of the entire command. Some of the more important of such reports are briefly described in the following paragraphs.

Consolidated balance sheet.--This statement is almost identical with the familiar balance sheet of business, having asset, liability and "net worth" sections. The asset section contains the following well known captions --cash, accounts receivable, inventories and deferred charges. The liabilities section lists accounts payable, accrued liabilities, deferred income and reserves. The net worth section, known as the "corpus" of the Fund, is similar to commercial types. The original cash contribution and capitalized inventories represent the stockholders' equity in the business, and the excess of income over expenses, the surplus.

Consolidated statement of income and expenses.--This is the commercial concern's profit and loss statement. Income is related to expenses, broken down first by three operating classes--cargo ships, passenger ships and petroleum ships; then by non-operating items, reimbursable items and special operations. Within each general class is a further breakdown of income and expense by various categories or sources of expense and income--Nucleus Fleet ships, time charters, voyage charters, shipping contracts, and the like. The

need for an efficient cost accounting system to allocate costs to these various "cost centers" is apparent.

Consolidated budget statement.--This statement is a monthly comparison of budgeted expenses against actual costs, broken down by the same categories employed for the income and expense statement. It indicates the amounts over or under the budgeted amount, first by ship class--cargo, passenger and petroleum; then by source, Nucleus Fleet ships, time charters, etc. This is the statement that charts the way--it highlights deviations or variances from the budgeted plan and may be the signal for appropriate action, such as an increase in tariff rates.

Other monthly statements.--In addition to basic statements briefly described above, the same income and expense, and budget statements are prepared from the beginning of the fiscal year through the current month. There is also a detailed budget statement for MSTS Nucleus Fleet ships, broken down into detailed expense classifications such as cost of civilian labor, overtime, travel, subsistence, bedding, fuel, etc. A monthly Financial and Statistical Report containing a wealth of detailed operating statistics is also published.

Reductions in Operating Costs

Effective Management Produces Economies

Operating fleet reductions.--Rapid readjustment of operations following the truce in Korea is illustrative of the wide fluctuations in requirements of the Shipper Services and the built-in flexibility inherent in the MSTS Industrial Fund operation. As late as the Fall of 1953 dry cargo shipping requirements averaged about 1.3 million measurement tons per month. During November, 1954, this average dropped to .8 million tons. In July, 1953, the Nucleus

and Commercial fleets of MSTS had reached a total of 602. By November, 1954, this figure had dropped sharply to 280. Throughout the inactivation program every effort was made toward eliminating the least efficient and most costly ships to operate.

Procedures.--Beginning in September, 1953, scheduled port turnaround time of passenger ships was reduced an average of one and one-half days per turnaround in U. S. ports. Figuring thirty-two turnarounds per month, at an estimated \$5,000 per day, per ship, savings represented about \$2.8 million per year.

MSTS is faced with the problem of having on hand adequate troop transport capacity to meet fluctuating demands of military movements. To reduce the cost of such ships during slack periods MSTS has developed a plan for placing ships in reduced operational status. The crux of this plan combines inexpensive berthing with reduction of crew complements to the minimum necessary to maintain ships in a condition of readiness to resume full operations within fifteen to thirty days' notice. Approximately \$3,300 per day per transport placed in a ROS status is saved.

MSTS had to institute some plan to reduce lost time in port. A system of penalty payments was devised by making the Shipper Services financially responsible for such delays. During the fiscal years 1953 and 1954, \$800,000 and \$1,776,000, respectively, was collected. Since those years lost time has been reduced to a minimum.

Before April, 1953, additional tanker tonnage was obtained from the "Voluntary Tanker Allocation Pool," so called, at a fixed rate, known as Maritime plus 25%. Since then, voyage charters have been obtained on the open market through competitive bidding at a savings of \$15.9 million in 1954.

Concerted efforts toward negotiation of berth space shipping contracts on trade routes susceptible to movement of military cargo have produced advantageous rates, minimized the use of Government Bills of Lading, and greatly simplified administrative procedures.

In port periods allowed for annual overhauls have been greatly reduced since 1954 and the value of vessel time saved is estimated to be in excess of \$400,000 per year.

The three major U. S. continental MSTS Area Commands each year submit budget requests for their repair expenditures for each class of ship. After careful review at MSTS Headquarters the commands are advised of amounts allocated to them. While a command may temporarily exceed at any given time the budgeted amount up to that time, by the end of the fiscal year the sum total for ship repair may not exceed that allowed, without special approval of the Commander, MSTS, which is seldom given. This method has been effective in reducing repair expenditures.

Summary

The reader of this dissertation will have been exposed, albeit briefly at times, to almost all facets of the operation that is the Military Sea Transportation Service. He has been given a glimpse backward into history, when as long ago as one hundred years a prophetic Army officer suggested that the Navy provide sea transportation for the Armed Forces. He watched this idea grow until finally it blossomed. He has walked through the command organization, from Headquarters, Washington, D. C. to as far away as Yokosuka, Japan and saw something of MSTS at work. A quick look at the Fleets and its operations was followed by an introduction to that significant and unique feature of MSTS--the Industrial Fund. Because the Comptroller is so deeply involved in the

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THEOREM

The value of the function is not constant. The value of the function is not constant. The value of the function is not constant.

intricacies of the Industrial Fund the reader was taken through his office, and then had explained to him some of the contributions to better management and reductions in cost attributable to operations under the Navy Industrial Fund.

In conclusion, what could be more fitting than a few words from Vice Admiral F. C. Denebrink, USN, Commander, Military Sea Transportation Service. These passages are quoted from remarks made by the Admiral before the Appropriations Committee, United States Congress on 15 November 1954:

Many of the management practices set forth in the foregoing could, and probably would, have been initiated were MSTS operations conducted with funds specifically appropriated on an annual basis. It is submitted however, that in such event, the requests for appropriations would unquestionably include a margin to insure the ability of MSTS to meet possible surges in shipping requirements and the extraordinary expenses to which operations such as those conducted by MSTS are constantly exposed. Alternatively, with funds provided by annual appropriations for the operation of a fixed number of ships, the possibility of contingencies arising would induce reluctance to effect reductions that might otherwise be made.

MSTS is engaged in a worldwide operation wherein its capital units are continually exposed to unpredictable risks leading to salvage operations, emergency repairs and numerous other extraordinary expenses. It is subject to automatic wage adjustments for thousands of civilian marine employees and must, at all times, be in a position to meet the widely fluctuating shipping requirements of the military services. Such an operation does not lend itself to financing by annual appropriations with one-year money and strict fiscal year planning. National security is a continuing problem; a new concept of financing is required with respect to continuing programs involving such unpredictable operating costs and capital expenditures as in the case of MSTS. Without the revolving capital working fund, MSTS would experience definite handicaps both in fulfilling its mission within the national defense structure and in conserving its funds and capital investment.

Under NIF financing, MSTS may operate or inactivate its own ships or effect their repair, and charter private ships in accordance with actual needs and on terms dictated by prudent management, taking advantage of market fluctuations and commercial practices. It may, without hesitation, reduce its operating expenses during slack periods since it has assurance that, if conditions warrant, those expenses can be readily increased without regard to annual appropriations. Not

only can timely retrenchment be effected, but the application of NIF cost accounting principles makes possible the recognition of the areas of potential retrenchment more clearly and the judging of maximum possible reductions more precisely and safely, thus stimulating the consciousness of costs on the part of management, with a corresponding motivation to cut costs. It is believed that these advantages, together with the flexibility of management that goes with a freedom from the limitations inherent in annual appropriations, must be credited with a large portion of the savings affected by MSTs.

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